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MALAYSIA ECONOMIC MONITOR

DECEMBER 2021

Staying Afloat

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MALAYSIA ECONOMIC MONITOR

DECEMBER 2021

Staying Afloat



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Hub in Malaysia

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Abbreviations

B40	Bottom 40 percent (of the population)	MCO	Movement Control Order
BNM	Bank Negara Malaysia	MEM	Malaysia Economic Monitor
BPN	National Caring Aid (<i>Bantuan Prihatin Nasional</i>)	MNC	Multinational Corporations
BPS	Business Pulse Survey	MOF	Ministry of Finance Malaysia
BSH	Cost of Living Aid (<i>Bantuan Sara Hidup Rakyat</i>)	MPC	Monetary Policy Committee
CMCO	Conditional Movement Control Order	MTFF	Medium-Term Fiscal Framework
COVID-19	Coronavirus Disease 2019	MTRS	Medium-Term Revenue Strategy
CPI	Consumer Price Index	MSME	Micro, Small and Medium Enterprises
CP-TPP	Comprehensive and Progressive Trans-Pacific Partnership	NPL	Non-performing Loans
DE	Development Expenditure	OE	Operating Expenditure
DFI	Development Finance Institution	OPR	Overnight Policy Rate
DOSM	Department of Statistics Malaysia	PISA	Programme for International Student Assessment
E&E	Electricals and Electronics	RMCO	Recovery Movement Control Order
EAP	East Asia and Pacific	RPGT	Real Property Gains Tax
EMCO	Enhanced Movement Control Order	SESSS	Self-Employment Social Security Scheme
EMDEs	Emerging Market and Developing Economies	SOEs	State Owned Enterprises
EPF	Employees Provident Fund	SMEs	Small and Medium Sized Enterprises
FBM KLCI	FTSE Bursa Malaysia Index	SRR	Statutory Reserve Requirement
FDI	Foreign Direct Investment	SST	Sales and Services Tax
GDP	Gross Domestic Product	T20	Top 20 percent (of the population)
GFCF	Gross Fixed Capital Formation	TFP	Total Factor Productivity
GIC	Global Investment Competitiveness	TIMSS	Trends In International Mathematics and Science Study
GLC	Government Linked Corporation	UMIC	Upper-middle Income Countries
GNI	Gross National Income	WHO	World Health Organization
GST	Goods and Services Tax	Y/Y	Year-on-Year
GVCs	Global Value Chains		
HiFy	High-Frequency Phone Survey		
ICT	Information and Communication Technology		
ILO	International Labor Organization		
IMF	International Monetary Fund		
IPI	Industrial Production Index		
LAYS	Learning-Adjusted Years of Schooling		
LCR	Liquidity Coverage Ratio		
LHDN	Inland Revenue Board (<i>Lembaga Hasil Dalam Negeri Malaysia</i>)		
M40	Middle 40 percent (of the population)		



Table of Contents

Acknowledgements	4
Abbreviations	5
Summary	8
Recent economic developments.....	9
Economic outlook.....	10
Staying Afloat.....	11
PART ONE	16
Recent economic developments	18
The resurgence of the pandemic and supply chain disruptions have weighed on the global economy.....	18
Developments in the Malaysian Economy	19
Domestic economic activity has been affected by the reimposition of movement controls.....	19
Gross exports remained resilient, with robust demand for manufacturing and commodity exports.....	21
Labor market conditions softened as the economy slowed down.....	25
Malaysia is gradually emerging from the worst wave of COVID-19 infections.....	27
Financial sector conditions have remained broadly stable.....	28
The fiscal deficit is expected to widen in 2021.....	30
Fiscal space is expected to remain constrained.....	32
Economic outlook	35
Global growth is projected to moderate next year.....	35
Malaysia's economic recovery is expected to gain momentum next year.....	36
The balance of risks for growth is tilted to the downside.....	37
In the near term, the government should continue existing support measures.....	38
As the recovery becomes more entrenched, fiscal policy should focus on rebuilding fiscal buffers.....	40
PART TWO	45
Staying Afloat	46
The pandemic has exacerbated existing challenges faced by poor and vulnerable Malaysian households.....	46
Employment has fluctuated, with low-income and informally employed workers particularly affected by the shocks.....	49
Although the economy is gradually recovering, the progress is uneven, leaving low-income households and informally employed workers more vulnerable.....	54
A large share of those not covered by social insurance, such as informally employed workers, were also excluded from government assistance.....	58
The more severe impact faced by the poor and informally employed workers underscores gaps in the social protection system.....	60
The pandemic has widened existing learning gaps between children in Malaysia.....	63
Children from low-income households face different realities pre- and during COVID-19, casting a clearer light on issues in the education system.....	67
The pandemic will potentially further contribute to socioeconomic inequalities, besides slowing future growth.....	71
In the near-term, support for the poor and vulnerable, including informally employed workers and children, should remain in place.....	75
In the medium- to long-term, policies should look into addressing shortcomings and managing impact of the pandemic.....	79
References	82

Summary

Following the surge in COVID-19 infections in Q3 2021, Malaysia is gradually emerging from the worst wave of the pandemic

The surge in COVID-19 infections in the Q3 2021 significantly affected the Malaysian economy.

The reimposition of pandemic-related restrictions saw the closure of most economic sectors, with only key essential services allowed to operate. Vulnerable households and small and medium enterprises (SMEs) in particular, were most affected. Malaysia's economy subsequently contracted by 4.5 percent in Q3 2021.

Nevertheless, Malaysia is gradually emerging from the worst wave of the pandemic.

New daily cases have trended down significantly, relieving some pressure on the health system. This is largely explained by the acceleration in the National Immunization Program, with 78 percent of the population being fully vaccinated as of December 16, 2021. This coincided with the drop in hospitalization as well as daily fatality rates. With the decline in the number of infections, the government has eased most of the movement restrictions.

As a result, the Malaysian economy is expected to be on a recovery path next year.

Growth – projected

at 5.8 percent in 2022 (2021f: 3.3 percent) – is expected to be anchored by a rebound in domestic demand and continued expansion in exports. Nevertheless, several downside risks remain, including new COVID-19 outbreaks, faster-than-expected slowdown in global and regional growth, unanchored inflation expectations and faster-than-anticipated tightening of global financial conditions.

In the near-term, it is key to ensure that targeted support measures remain in place.

As recovery becomes more entrenched, steps could be taken to recalibrate existing support programs, along with a robust medium-term fiscal consolidation plan to expand revenues and contain expenditures.

The Malaysia Economic Monitor (MEM) consists of two parts.

Part 1 presents a review of recent economic developments and a macroeconomic outlook. Part 2 focuses on a selected special topic that is key to Malaysia's medium-term development prospects and to the achievement of shared prosperity.

Recent economic developments

Domestic economic activity was severely impacted by the reimposition of movement controls.

Malaysia's economic growth contracted by 4.5 percent in Q3 2021 after a strong 16.1 percent expansion in Q2. Private consumption contracted as COVID-related restrictions, heightened cautionary behavior among consumers, and elevated uncertainty over employment and earnings constrained spending by households. Investment activities were also affected as business sentiments remained subdued.

On the supply side, the contraction in growth was broad-based as pandemic mitigation measures affected output across all sectors. Construction activity was most affected following temporary halts in non-essential construction work, falling by 20.6 percent in Q3 2021.

Inflationary pressure in Malaysia has remained contained relative to other countries in the region.

This was partly due to a smaller base effect from fuel prices; the implementation of electricity bill discount; and price caps and subsidies on essential commodities. Core inflation remained broadly stable at 0.7 percent. The Central Bank of Malaysia has kept the overnight policy rate unchanged throughout 2021 and continues to regard the current degree of monetary accommodativeness to be appropriate.

Nevertheless, recently there has been a marked surge in the prices of selected food items.

The sharp increase in food items such as poultry and vegetables was driven by a shortage in supply, as adverse weather conditions and shortage of foreign labor have affected the production of fresh produce. The government is looking into measures to manage price increases, including organizing regular sales for basic necessities. While such measures may be effective in the short-term, medium-term measures are needed to reduce the impact of climatic volatility on agriculture output and food supply.

Malaysia's exports have remained relatively resilient, supported by robust external demand and a diversified export base.

The strong growth in exports was driven mainly by strong external demand for non-E&E manufactured products, including petroleum and chemical products, metal manufactures and palm-oil based products. Higher commodity prices also contributed to increased commodity exports, particularly crude palm oil (CPO) and liquefied natural gas (LNG). Meanwhile, services exports, particularly travel and tourism remained subdued.

The headline unemployment rate remained largely unchanged at 4.5 percent.

However, unemployment rate for the 15-24 age group has remained high (11.7 percent in Q3 2021; Q2 2021: 11.0 percent) amid prolonged economic uncertainty and job mismatches. Moreover, the underemployment rate also remained elevated, reflecting the continued under-utilization of labor force. It also underscores structural issues such as skills mismatches, the rise of the informal and gig



economy, and the lack of affordable childcare, affecting the creation of stable jobs.

The financial sector remained stable, with banks maintaining adequate liquidity positions. Liquidity coverage remains elevated at 154 percent at the end of September, above the statutory requirement of 100 percent. There was sufficient liquidity at the institutional and system-wide levels to support financial intermediation. In addition, despite the increase in overall household debt, the bulk of household borrowers remain resilient. Non-performing loans have remained steady at 1.9 percent, likely due to the forbearance measures because loans under repayment assistance are not classified as impaired.

The fiscal deficit is expected to widen to 6.5 percent in 2021. Federal government spending in 2021 was revised upwards by 0.6 percent of GDP, while revenue collection was revised downwards by 0.5 percent of GDP. This resulted in a projected increase of 1.1 percent of GDP to the fiscal deficit. Similarly, the primary deficit is expected to widen marginally to 3.9 percent of GDP in 2021, up from 3.8 percent in 2020.

The government has raised the debt limit to accommodate the higher spending. In October 2021, the parliament approved the increase in the debt ceiling from 60 to 65 percent. The ceiling was previously increased from 55 to 60 percent of GDP.

Debt service charges breached the self-imposed limit of 15 percent of revenue. In 2020 they stood at 15.4 percent of revenue and are expected to rise to 17.4 and 18.4 percent in 2021 and 2022 respectively. The increase in debt service charges partly reflects the decline in revenue and the increase in debt. While the breach is expected, it has contributed to the narrowing of Malaysia's fiscal space, increasing fiscal rigidity and crowding out discretionary spending.

Budget 2022 indicates fiscal space is expected to remain constrained. Government revenue has been on a downward trend since 2012, mainly driven by declines in oil-related revenues, and consumption taxes. Although the government announced a new set of tax measures, including a one-off windfall tax, tax on sugar-sweetened beverages as well as the removal of tax exemptions on foreign income, the impact is expected to remain small.

The government has proposed introducing a Fiscal Responsibility Act (FRA) in 2022. Such an Act, if properly designed and implemented, should establish a path for medium-term fiscal consolidation.

Economic outlook

Global growth is projected to decelerate to 4.3 percent in 2022 (2021: 5.6 percent). This reflects headwinds from COVID-19 flare-ups, continued supply disruptions and diminished macroeconomic support. Growth is projected to moderate to 4.0 percent in advanced economies next year (2021: 5.4 percent) as policy support gradually recedes, partially cushioned by the continued release of pent-up demand. Meanwhile, growth in emerging markets and developing economies (EMDEs) is projected to moderate to 4.7 percent in 2022 (2021: 5.9 percent).



Economic recovery in Malaysia is expected to gain momentum in 2022. The economy is projected to grow by 5.8 percent in 2022. This is mainly driven by acceleration in private consumption. Exports are projected to continue to expand, albeit at a slower pace, in line with the expected moderation in global trade growth. Growth is anticipated to be broad-based, with recovery across all economic sectors.

Headline inflation is projected to moderate in 2022. The base effect of the higher domestic retail fuel

prices is expected to dissipate. Underlying inflation is expected to be broadly contained over the near term in the absence of immediate domestic cost pressures.

The balance of risks for growth is tilted to the downside. A resurgence in COVID-19 infections and the emergence of the Omicron variant could dampen both global and domestic economic recovery. In addition, rising vulnerability among affected households and firms could also pose headwinds to growth. Defaults will likely rise once debt repayment moratoria and other regulatory forbearance measures expire.

Continuing existing support measures should remain the focus in the near term. Targeted social spending should remain in place given that there remains a high degree of uncertainty over the health and economic outlook. The High-Frequency Phone Survey (HiFy) survey which was conducted during the pandemic showed that there were some households within low-income segments such as informally employed workers did not receive government assistance.

Strengthening the health system's readiness remains a top priority. It is also important to ensure a successful response to the booster shot program to provide enhanced protection to at-risk individuals.

Efforts to rebuild of fiscal buffers should be accelerated in the medium-term. Measures to increase revenue collection through a more progressive tax framework need to be accelerated, with a clear implementation timeline. Concurrently, it is important for the government to raise its spending efficiency. This includes improving the targeting of social spending and at the same time phasing out generalized and regressive subsidies, such as fuel subsidies.

Looking further ahead, policies could also be aimed at addressing the gaps in social safety nets and improving human capital. The pandemic has exposed several limitations in the ability of Malaysia's existing social safety nets system to fully protect poor and vulnerable households. It is also important that significant measures are undertaken to enhance human capital, which has experienced significant disruption during the pandemic. These issues and policies are explored in greater detail in Part 2 of this edition of the MEM, titled *Staying Afloat*.

Staying Afloat

Even before the advent of the pandemic, an increasing number of Malaysians, in both low- and middle-income groups, were struggling to make ends meet. Malaysia's recent economic growth has benefited people through enhanced economic opportunities and higher incomes. Even so, in recent times, more Malaysians felt that these headline successes have not translated into real improvements in their daily lives, according to the World Bank report *Aspirations Unfulfilled: Malaysia's Cost of Living Challenges*. Reasons for this include rising prices of basic goods and services, sluggish income growth, and increasing housing costs. With these challenges, many Malaysians entered the COVID-19 crisis with household balance sheets that were already stretched.

Informally employed workers experienced greater food insecurity, economic uncertainty, and distress during the pandemic

The pandemic has exacerbated existing challenges faced by the poor and vulnerable, including informally employed workers. Lower-income, less-educated, and young workers were more likely to be exposed to employment disruptions. Moreover, informally employed workers (who do not receive contributions to either EPF or SOCSO from their current employer) were also more severely impacted by the pandemic. They face structural vulnerabilities including irregular income and precarious terms of employment, greater exposure to shocks, and incomplete insurance against risks. As a result, informally employed workers experienced higher food insecurity, economic uncertainty, and financial distress during the crisis.

Although the economy is gradually recovering, the progress is uneven, leaving low-income households and informally employed workers more vulnerable. By November 2021, half of the people who became unemployed during the pandemic had returned to work. A quarter of those who continued working throughout the pandemic were no longer experiencing income reduction. These recent improvements were



translated into improvements in socioeconomic indicators, including lower prevalence of food insecurity and higher share of online learning participation among children. Nevertheless, the adverse impact of the pandemic still lingers around the poor and vulnerable, with many low-income households and informally employed workers becoming less resilient and more financially vulnerable. Given the tendency to rely on harmful coping strategies, such as sale of assets and reduction in food consumption, poor and vulnerable Malaysians are expected to have diminished productive potential in the long-term.

The pandemic has brought into sharper focus long-standing weaknesses in Malaysia's social protection system, underlining the need for a robust and shock-responsive social protection system. In response to the pandemic, the government intensified a progressive social assistance response, including establishing mechanisms to deliver the benefits swiftly. Despite this, a significant share of those who are eligible have not received any assistance. Findings from both rounds of the HiFy survey show that about a quarter of lower-income households had missed out on various government assistance programs during the crisis. Even among recipients of government assistance during the pandemic, informally employed workers and their households experienced higher food insecurity, alluding to the insufficiency of current assistance programs compared to exacerbated needs for support. The government's ability to provide meaningful assistance to the poor and vulnerable has been hampered by several weaknesses of the social protection system. These include low benefit adequacy, fragmentation of programs, non-standardized targeting, and the limited reach of social insurance especially among the poor. The exclusion among the poor in the receipt of COVID-19 assistance are in large part a consequence of these systemic weaknesses.

On the education front, the pandemic has widened existing learning gaps between children in Malaysia. Prior to the pandemic, there were already significant learning gaps between students from socioeconomically advantaged and disadvantaged households. By 2018, the performance gap for PISA between these two groups of students had increased for reading, mathematics, and science. In addition, Malaysia had one of the longest school closures in the region, potentially exacerbating pre-existing learning issues and gaps. Our simulations estimate up to 1.3 years of additional learning losses for Malaysian students, which could result in average annual earning losses of up to US\$2,320 per student.

Children from low-income households face different realities pre- and during COVID-19, casting a clearer light on issues in the education system. Several studies show that family wealth as well as parental educational levels and occupation are positively correlated with students' development of cognitive and socioemotional skills. The World Bank's HiFy survey highlights that children from low-income families were less likely to engage in home-learning activities during the pandemic. While most Malaysian children have had access to online classes or mobile learning applications, 23 percent of children from lower-income households were unable to participate, mainly due to the unavailability of stable internet and devices. More recent findings, however, show a decline in online learning constraints related to access to devices, consistent with a number of initiatives implemented by the government in 2021 to address the lack of devices and internet access among disadvantaged children.

It will be critical to improve outreach and intake among the excluded, particularly informally employed workers who are not linked to the tax system, or avail social insurance benefits linked to formal employment

To ensure Malaysia fulfills its growth potential in the next coming years, it is a critical and opportune time for the country to address pre-existing gaps as well as newly emerged challenges from the crisis. The HiFy survey confirms that the negative economic shock among households is often accompanied by a deterioration in other non-economic aspects. While the early impact of the pandemic was relatively widespread, its adverse consequences are expected to be more severe and longer among the poor and vulnerable, potentially contributing to long-term socioeconomic inequalities. A set of comprehensive immediate and medium-to longer term policies are needed to realize an inclusive and sustainable recovery for Malaysia. In the short-term, policy measures should be geared towards maintaining financial support for the poor and vulnerable, and establishing a more inclusive social



insurance framework. This can be achieved through the continuation of cash and other social assistance programs at least for the first half of 2022, as well as pilot programs and assessment of complementary interventions such as targeted wage subsidies and the extension of social insurance schemes, including to informally employed workers.

With widening learning disparities, short-term policy measures should also focus on mitigating further learning losses, especially for socioeconomically disadvantaged children.

As schools reopen, students' level of learning and socioemotional wellbeing needs to be assessed before introducing targeted remedial interventions. These remedial interventions are crucial, as there is a risk that students may not reach their potential, or they may drop out due to learning and wellbeing-related challenges in the aftermath of the pandemic. In the event of future school closures, measures to support and enable disadvantaged students and their parents to meaningfully engage in home-based learning should also be put in place. Furthermore, school leaders and teachers could play a critical role in fostering a positive environment that promotes stronger sense of belonging and growth mindset as students return to school, and thus contributing to better learning outcomes and performance.

In the longer-term, Malaysia should take steps to reform the social protection system to make it: (i) more broad-based and robust, (ii) progressively targeted, (iii) poverty and inequality reducing, (iv) shock-responsive, and (v) efficient. It will be critical

to improve outreach and intake among the excluded, particularly informally employed workers who are not linked to the tax system, or avail social insurance benefits linked to formal employment. Improvements in targeting can also potentially free up resources to increase the benefit levels of cash transfers, resulting in better coverage of the currently excluded poor households and therefore also a stronger impact on poverty and inequality reduction, without a commensurate increase in costs. Consolidating multiple current programs can potentially reduce under-coverage, enable a higher impact of resources directed towards social assistance, as well as achieve efficiencies in social protection delivery. All these measures can ensure better preparedness and lower household-level distress in the event of any future economic shocks.

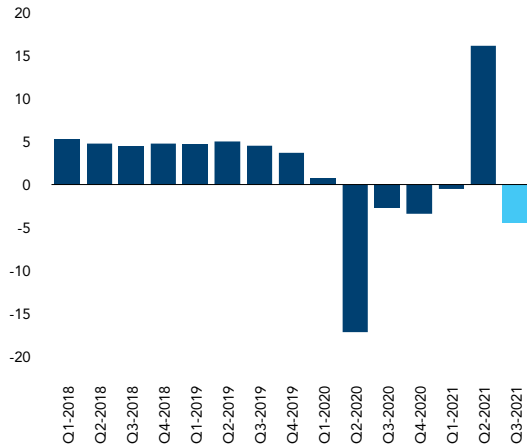
Finally, the government needs to build a more inclusive, effective, and resilient education system that is capable of responding to future shocks.

This includes enhancing training for teachers and principals to deliver more individualized instruction for students and provide contextualized support for schools to make localized decisions that are most responsive to their needs. It is also an opportune time to further develop the resilience of the education system by improving the accessibility and quality of digital learning. Ensuring the adequacy of ICT infrastructure, strengthening the digital skills of educators and students, as well as reviewing and improving the current digital learning delivery system can encourage better engagement in home-based or hybrid learning environments and minimize the risk of disadvantaged students being left behind.

Recent trends in Malaysia's economy

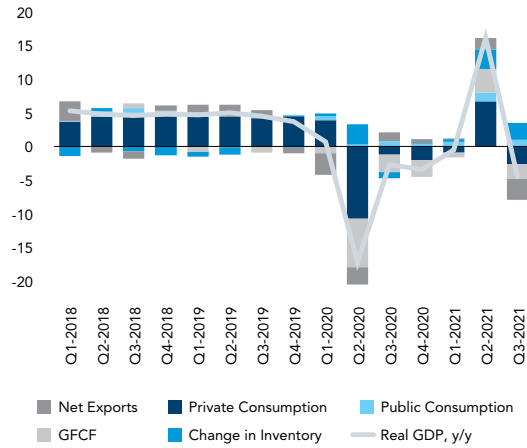
Malaysia's economy contracted by 4.5 percent in Q3 2021...

GDP, y/y, Percentage



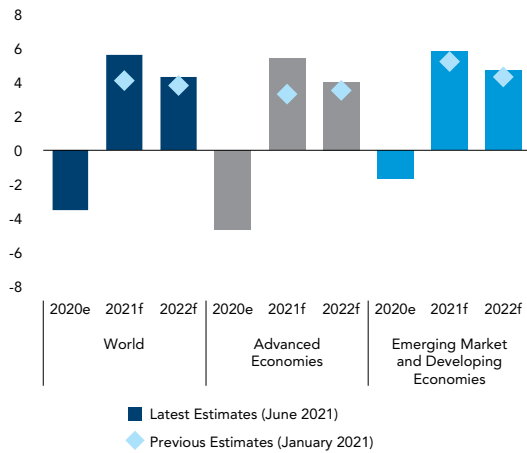
...weighed down by declines in private consumption, investment, and net exports

Contribution to GDP Growth, y/y, Percentage



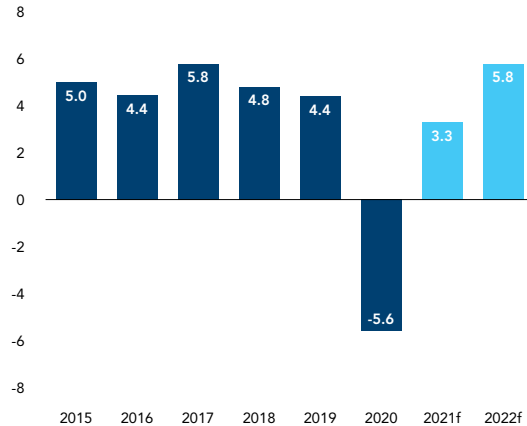
With the global economy expected to expand at 4.3 percent in 2022...

GDP, y/y, Percentage



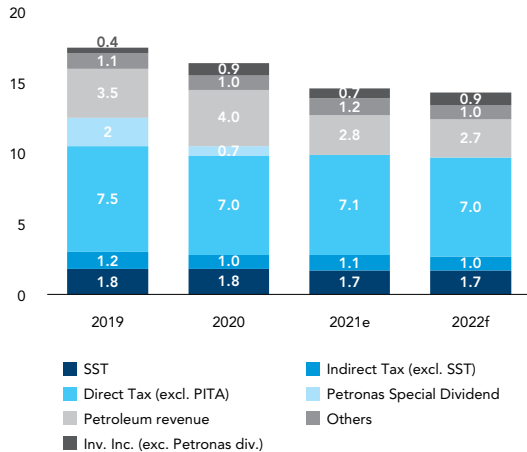
...Malaysia's economy is forecast to grow by 5.8 percent in 2022

GDP, y/y, Percentage



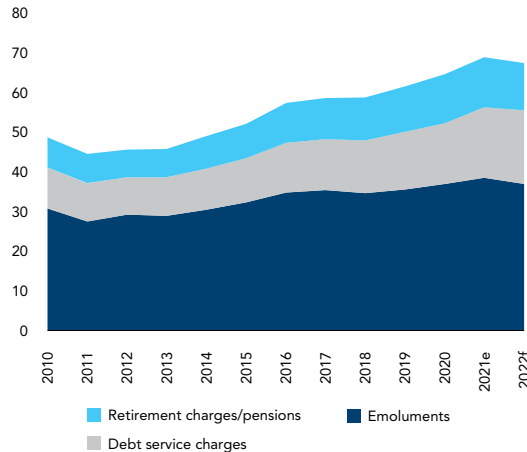
Limited fiscal space remains a key challenge with revenue expected to decline further...

Federal Government Revenue, Percentage of GDP



...while rigid operating expenditures have grown markedly over time

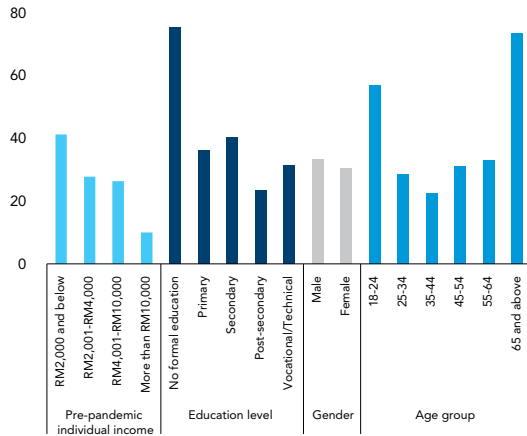
Share of Federal Government Operating Expenditure, Percentage



Staying Afloat

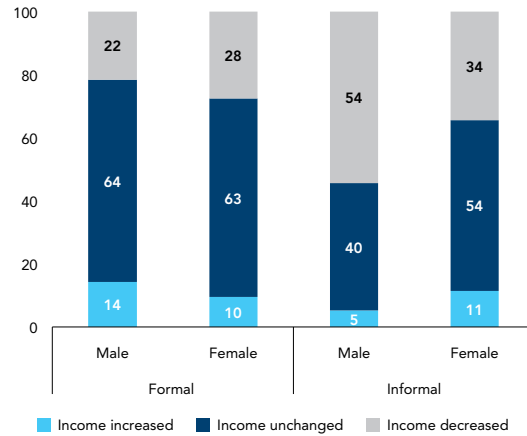
Low-income, less educated, youth, and older workers are more likely to stop working

Stopped working at any time since March 2020, Percentage of adults working in March 2020



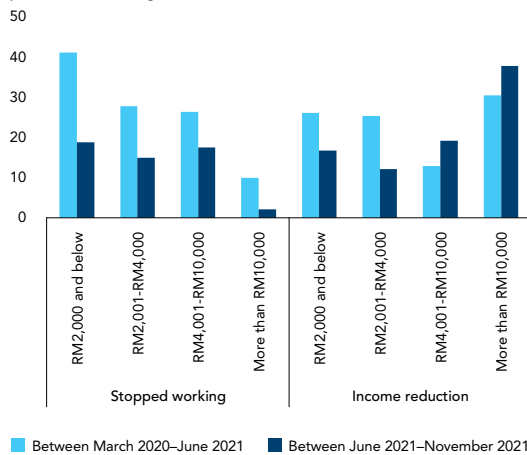
Informally employed men were more likely to have experienced a reduction in income

Income changes among wage workers, between March 2020 and May-June 2021, Percentage



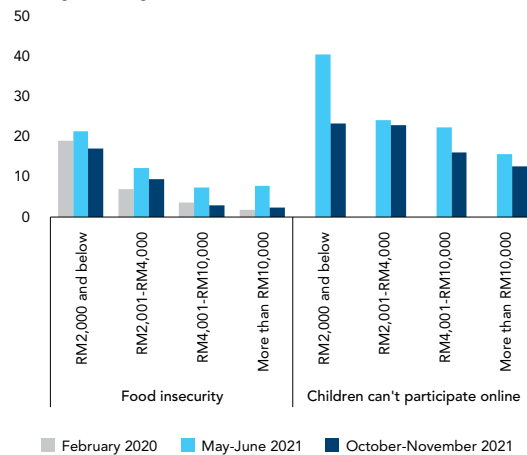
While signs of improvement are observed across most income groups...

Stopped working at any time or experienced income loss during the pandemic, Percentage of individuals



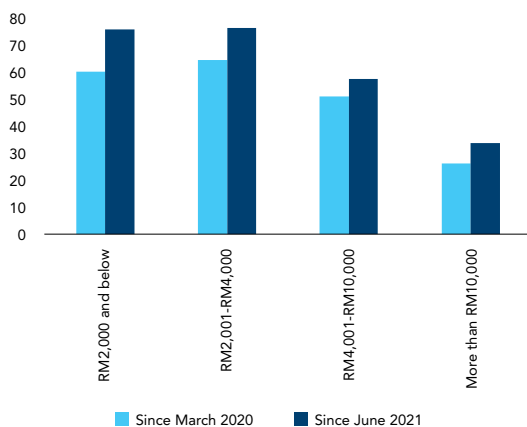
...the adverse impacts of the pandemic remain higher among low-income households

Ran out of food in past 30 days or children cannot participate in online learning, Percentage of households



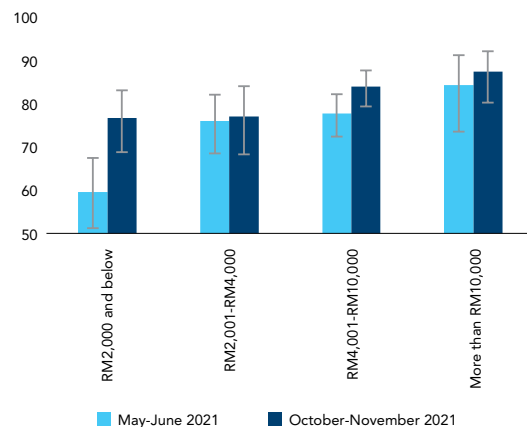
In recent months, higher shares of households have received cash transfers from the government

Received government cash transfers, Percentage of households within each income group



Children from low-income households remain less likely to engage in online learning activities

Engaged in online classes or used mobile learning apps, by household income, Percentage of households with children engaged in at-home learning





PART ONE

Recent Economic Developments and Outlook



Recent economic developments

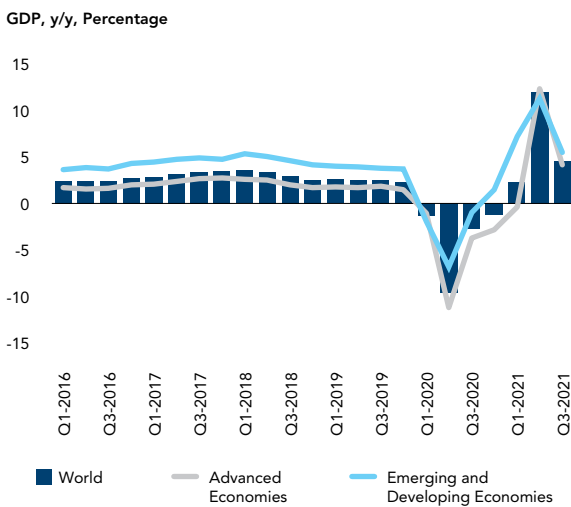
The resurgence of the pandemic and supply chain disruptions have weighed on the global economy

After rebounding strongly in Q2 2021, the pace of global economic recovery has moderated due to the resurgence of the pandemic and lingering supply chain disruptions (see Figure 1). With the emergence of the more infectious Delta variant, the recent surge in COVID-19 case numbers has dampened consumer demand globally, albeit to a lesser extent than during previous waves. Concurrently, supply chain disruptions have weighed on global manufacturing and trade. In advanced economies, the effective rollout of vaccination programs and sizable fiscal support have mitigated some of these adverse effects. While activity has picked up in the emerging market and developing economies (EMDEs), the speed of the recovery has differed considerably across countries. Global financial conditions have remained accommodative even as

some major central banks have reduced long-term asset purchases or signaled plans to raise policy rates.

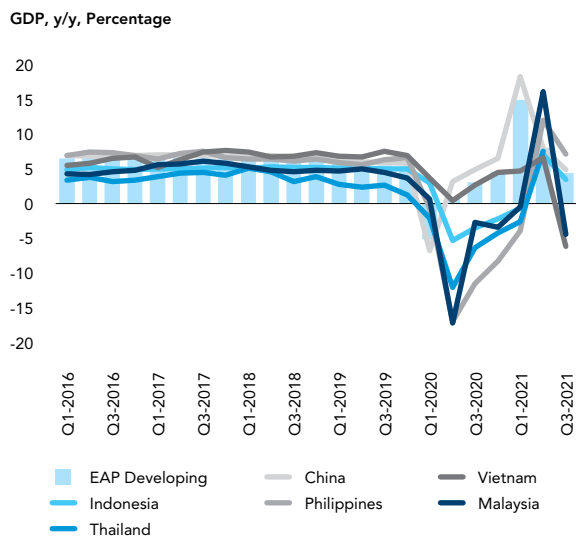
Economic activity has improved in the East Asia and Pacific (EAP) region in recent months, following a setback in Q3 2021 (see Figure 2). In China, the recovery has been mainly driven by increased activity in the manufacturing and trade sectors. Consumer spending, by contrast, has remained relatively subdued due to recurrent localized outbreaks of COVID-19 and associated mobility restrictions. Excluding China, the recovery in the region has gained momentum as a result of stronger domestic demand, with mobility constraints gradually loosened and vaccination rollouts increased. However, goods trade has moderated in the context of prolonged supply chain disruptions.

FIGURE 1
The pace of recovery in global economic activity moderated in Q3 2021



Source: World Bank Global Economic Prospects

FIGURE 2
Activity has gained strength in the EAP region, following a setback in Q3 2021



Source: World Bank Global Economic Prospects

Developments in the Malaysian Economy

Domestic economic activity has been affected by the reimposition of movement controls

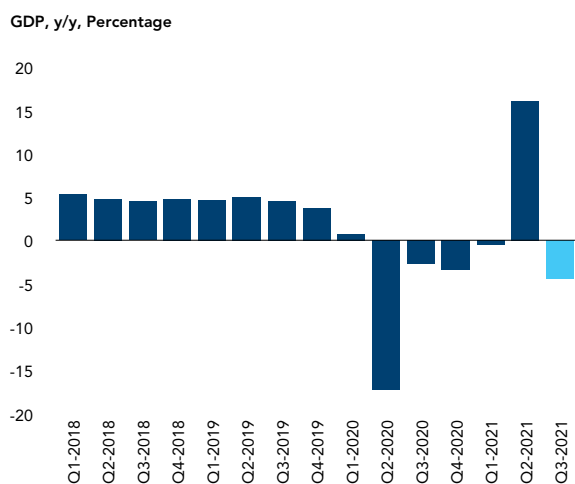
In Malaysia, the reimposition of stringent movement controls has impacted domestic economic activity.

Malaysia's economic growth contracted by 4.5 percent in Q3 2021, after a strong 16.1 percent expansion in Q2 (see Figure 3). During the quarter, private consumption contracted by 4.2 percent (Q2 2021: 11.7 percent), mainly reflecting the reimposition of movement restrictions between May and September, which led to notable decreases in mobility levels at public places (see Figure 4). Heightened cautionary behavior among consumers and elevated uncertainty over employment and earnings also constrained household expenditure during the quarter. Meanwhile, private investment

activity was affected by subdued business sentiment.

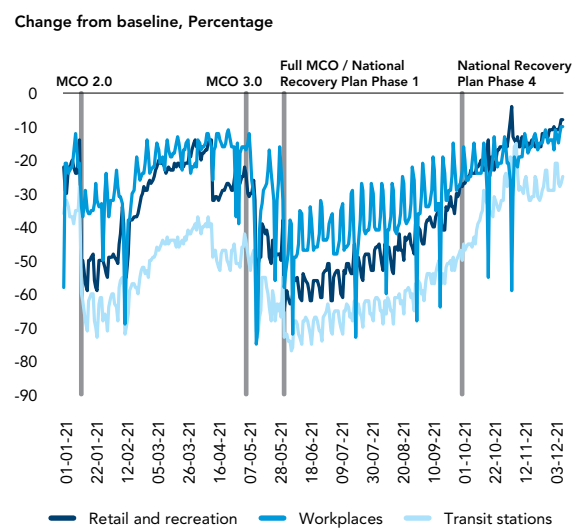
On the supply side, the contraction in growth was broad-based, with pandemic mitigation measures affecting output across sectors. Output declined across all economic sectors during the quarter, with construction sector activity being most severely affected due to temporary halts in non-essential construction work. Movement restrictions also contributed to weaknesses in consumption-related segments, such as vehicle sales, retail and tourism which more than offset expansions in the insurance, information technology and government services

FIGURE 3
Malaysia's economy contracted by 4.5 percent in Q3 2021...



Source: DOSM

FIGURE 4
...as mobility levels remained subdued throughout the quarter



Source: Google Community Mobility Reports

sub-sectors. The manufacturing sector registered the smallest contraction, benefiting from less stringent movement restrictions and strong external demand for manufactured exports (See Table 1).

The headline inflation rate stood at 2.2 percent during Q3 2021, compared to 4.1 percent in Q2 2021. Inflationary pressures remained relatively contained in Malaysia compared to other countries

TABLE 1
GDP growth decomposition

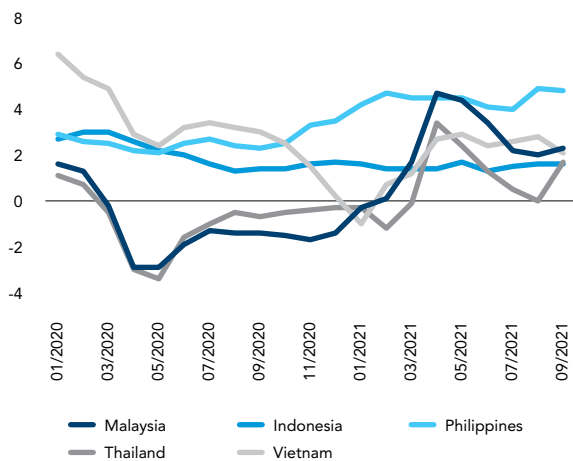
GDP, y/y, Percentage

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020	Q1 2021	Q2 2021	Q3 2021
GDP	4.7	5.0	4.5	3.7	4.4	0.7	-17.2	-2.7	-3.4	-5.6	-0.5	16.1	-4.5
Consumption													
Private Sector	7.7	7.8	7.1	8.2	7.7	6.7	-18.5	-2.1	-3.5	-4.3	-1.5	11.7	-4.2
Public Sector	6.1	0.0	0.7	1.0	1.8	4.9	2.2	6.8	2.4	3.9	5.9	9.0	8.0
Gross Fixed Capital Formation	-3.4	-0.6	-3.7	-0.7	-2.1	-4.5	-29.0	-11.4	-11.8	-14.5	-3.3	16.5	-10.8
Exports of Goods & Services	0.3	0.6	-1.6	-3.3	-1.0	-7.2	-21.7	-4.9	-2.1	-8.9	11.9	37.4	5.1
Imports of Goods & Services	-1.6	-2.3	-3.3	-2.3	-2.4	-2.7	-19.7	-7.9	-3.3	-8.4	13.0	37.6	11.7
Sectoral													
Agriculture	6.1	4.2	3.7	-5.5	2.0	-8.6	0.9	-0.3	-1.0	-2.2	0.2	-1.5	-1.9
Mining	-0.1	2.9	-2.8	-2.5	-0.6	-2.9	-20.8	-7.8	-10.4	-10.6	-5.0	13.9	-3.6
Manufacturing	4.1	4.3	3.6	3.0	3.8	1.4	-18.3	3.3	3.0	-2.6	6.6	26.6	-0.8
Construction	0.6	1.1	-1.4	1.3	0.4	-7.9	-44.5	-12.4	-13.9	-19.4	-10.4	40.3	-20.6
Services	6.5	6.2	5.9	6.2	6.2	3.1	-16.2	-4.0	-4.8	-5.5	-2.3	13.5	-4.9

Source: World Bank staff calculations based on DOSM data

FIGURE 5
Inflationary pressures in Malaysia remained contained relative to regional countries...

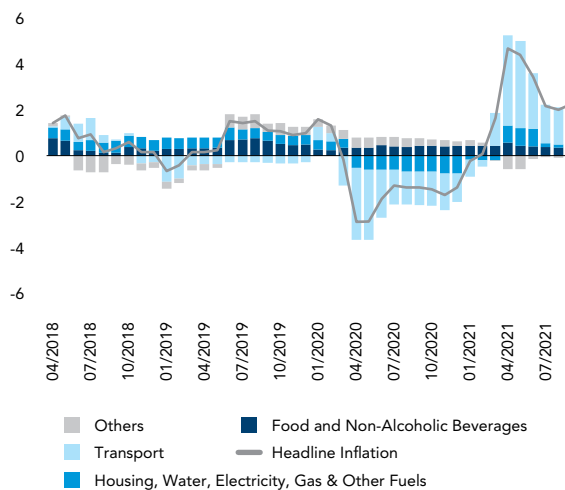
Inflation, y/y, Percentage



Source: DOSM and Haver Analytics

FIGURE 6
...partly driven by a smaller base effect from fuel prices

Contribution to Inflation, y/y, Percentage



Source: World Bank staff calculations based on DOSM data

in the region (see Figure 5), driven by several factors. First, there was a smaller base effect from fuel prices in the same period last year. Second, the government implemented an electricity bill discount under the *Pemulihan* Electricity Discount scheme, which led to lower utility prices (see Figure 6).¹ Third, the domestic prices of some essential commodities are either controlled or subsidized by the government, which reduced the pass-through of higher global commodity prices to domestic inflation. Underlying inflation, as measured by core inflation, has remained broadly stable, in the range of 0.6 - 0.8 percent throughout the year.

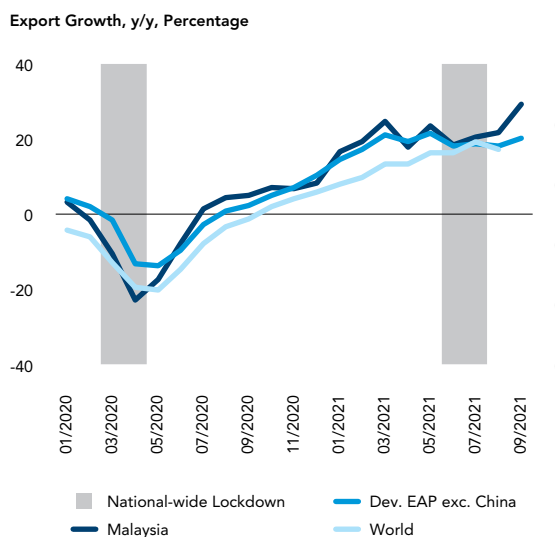
Nevertheless, there has been a recent marked surge in the prices of a number of basic food items, largely driven by supply issues. The sharp increase in food items such as poultry and vegetables has been driven by supply shortages amid adverse weather conditions and shortages of foreign labor. In response, the government is looking into measures to manage these price increases, with plans to organize regular sales offering basic necessities at prices up to 20 percent lower than prevailing market prices.²

Gross exports remained resilient, with robust demand for manufacturing and commodity exports

Recent trends in export growth and its broad-based drivers have provided support to Malaysia's economy during the pandemic. The COVID-19 pandemic resulted in a steep decline in global exports,

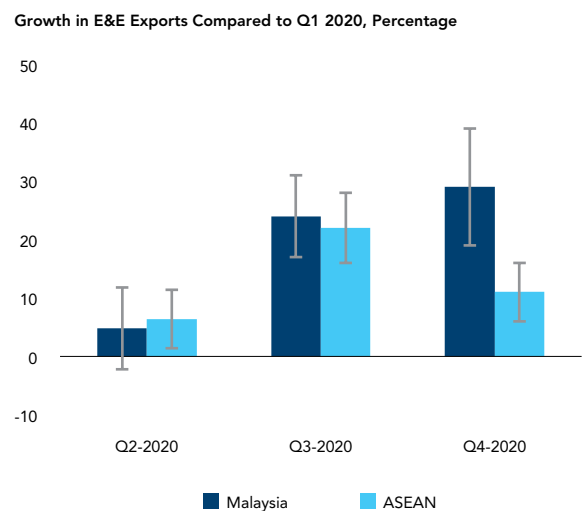
including those from Malaysia and other EAP countries. However, Malaysia's exports have rebounded swiftly to previous levels, outpacing global and the EAP average (see Figure 7). Recent data indicate that Malaysia's

FIGURE 7
Malaysia's exports declined significantly during early 2020 but rebounded swiftly, outpacing global and the EAP average



Source: World Bank Staff calculations based on Global Economic Monitor
Note: The chart plots a 3-month moving average of the monthly export growth over the corresponding month in 2019.

FIGURE 8
Malaysia performed better than regional peers in electronics and electrical equipment exports



Source: World Bank staff calculations based on DOSM data

¹ The scheme was announced as part the *Pemulihan* relief package and included discounts ranging from 5 to 40 percent depending on monthly electricity bill.

² Malaysia Family Sales: <https://www.nst.com.my/news/nation/2021/12/750732/nanta-gives-assurances-comprehensive-solution-food-price-hikes>

BOX 1

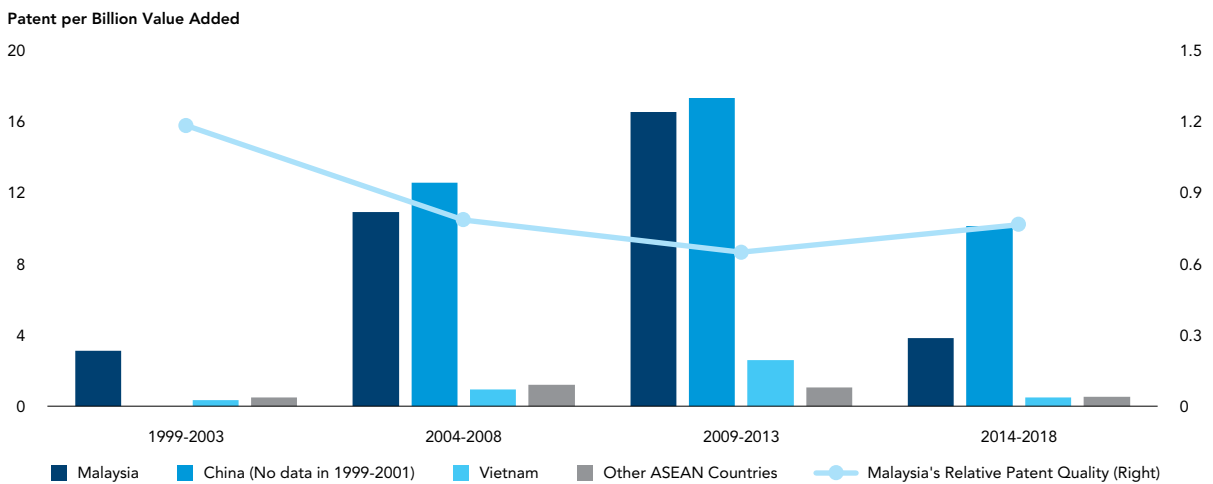
Malaysia's E&E Export Performance during the Pandemic



The strong recovery of Malaysia's E&E sector is associated with the robust global demand for products such as home office equipment, consumer electronics, and medical devices. The demand for Malaysia's E&E products comes mainly from within the EAP region, with this region accounting for more than 71 percent of Malaysia's E&E exports in 2020. In addition, the recent upward growth trajectory of

Malaysia's E&E sector is at least partially due to past efforts to boost R&D investment and innovation in the sector. Over the 2002-2016 period, 35 percent of patent applications in the country came from the E&E sector, with Malaysia accounting for more than 65 percent of E&E patent applications by all developing ASEAN countries. Measured in terms of number of patent application per value added in medium to high

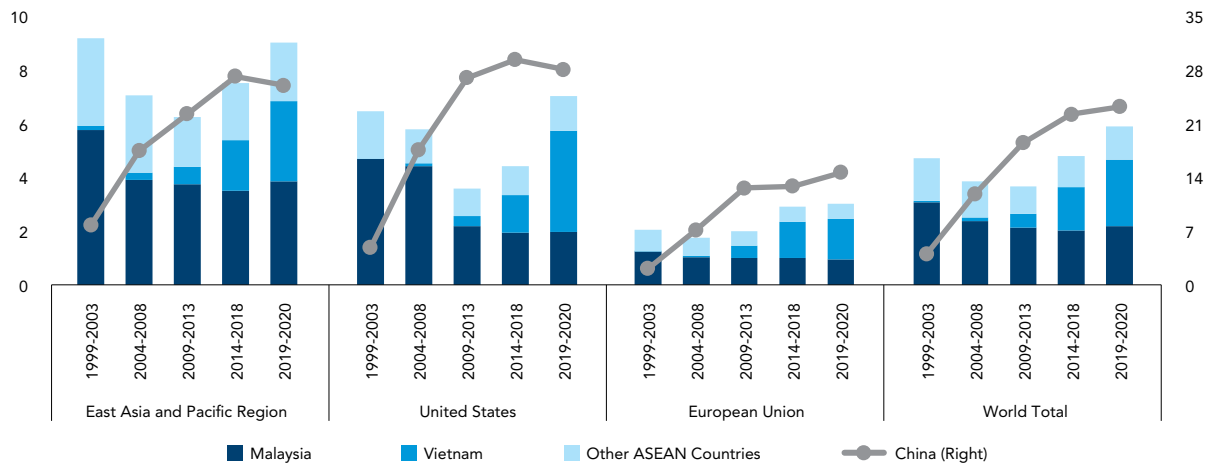
FIGURE 9
While Malaysia is a major innovator in the E&E industry in the region, it lags behind China



Source: World Bank Staff calculations based on PATSTAT Global and World Development Indicators
 Note: Patent application in each period is calculated on the basis of the total number of E&E patent applications to the US, Japan, and European Patent Office by companies in different regions/countries. Real value-added in medium to high tech manufacturing (converted to 2015 US\$) is used to normalize total patent applications. Patent Quality is measured in terms of the forward citation per patent within 3 years of each patent's publication date. Malaysia's Relative Patent Quality is calculated in terms of Malaysia's average patent quality divided by China's average patent quality.

FIGURE 10
Malaysia's Export Market Share of E&E products has declined with the rise of China and Vietnam

E&E Export Market Share, Percentage



Source: World Bank Staff calculations based on the UN Comtrade Database

Note: Each bar represents the country's E&E export market share in different regions and periods. For instance, Malaysia's E&E export market share is the EAP region calculated as Malaysia's total E&E export to the EAP region divided by the world's aggregate E&E export to the EAP region.

manufacturing, the innovation intensity of Malaysia's E&E sector is significantly higher than that of Vietnam and other developing ASEAN countries (see Figure 9). Malaysia's higher innovation capacity has made it a favored destination for multinational companies seeking to relocate their E&E supply chains away from China as a result of the recent US-China trade war.

However, over recent decades, Malaysia's R&D investment and innovation outcomes have still lagged behind those of China. In 2018, Malaysia's R&D expenditure to GDP ratio stood at 1.0 percent, much lower than the ratio recorded in China, at around 2.1 percent. In recent years, compared to Chinese companies in the E&E sector, similar-sized Malaysian companies in the E&E sector applied for less than 60 percent of patents (see Figure 10), with a lower average patent quality. Over the long term, Malaysia's share of the E&E market has declined, particularly with the rise of China over the 2000-2014 period and the rise of Vietnam over the 2014-2018 period.

Recent tensions between the US and China as a result of trade and technology issues have benefited Vietnam more than Malaysia and the other ASEAN nations (see Figure 10). This could be caused by Vietnam's relatively low labor costs and its trade agreements with the US and the European Union. Given Malaysia's insufficient investment in

innovation, its relative comparative advantage in technology advances is unable to offset its relative disadvantages in higher labor costs. Compared to its ASEAN peer, Malaysia is not an effective alternative for foreign investors to relocate their production. Malaysia has relatively high labor costs for high-skilled workers compared to Vietnam, which might lower the short-term benefit it could gain from the US-China decoupling, with a loss of FDIs to Vietnam in the near term. Malaysia's insufficient investment in innovation might slow down its endeavors to move up the global value chain in the long term. Malaysia's R&D investment would need to be more industry relevant to strengthen its competitiveness in the E&E sector in the future.

Despite these longer-term trends, Malaysia's exports have been on a steadily increasing growth trajectory since the second half of 2020. Even during one of the worst periods of the pandemic, with the outbreak of the Delta variant in the middle of 2021, Malaysia's export growth only flattened for a brief period before recovering in the third quarter of 2021. Going forward, the focus should still be on containing the spread of the virus and administering booster vaccine doses to reduce the likelihood and severity of future waves. In addition, policymakers should focus on measures to boost global value chain participation, to upgrade technology, and to improve trade facilitation.



exports of petroleum oil and natural gas increased by 3 percent in September 2021, contributing to 18 percent of the month's export growth. With an increase in palm oil prices, palm oil and palm oil-based products became the second-largest contributor to Malaysia's export growth in the third quarter. Malaysia's aggregate

export growth during the pandemic was also sustained by the exceptional performance of its electronics and electrical (E&E) sector, which has been significantly outpacing that of other ASEAN countries (see Figure 7 and Box 1).

TABLE 2
Selected external sector indicators

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Balance of Goods & Services (% of GDP)	8.9	6.7	7.4	7.2	5.8	4.5	7.6	7.5	5.8	6.8	6.9
Current Account Balance (% of GDP)	4.8	4.0	3.5	1.9	2.4	2.5	6.7	4.9	3.3	3.9	3.1
Total Exports (% of GDP)	66.2	65.8	65.2	64.0	60.9	60.8	61.0	62.8	66.3	71.2	68.5
Total Imports (% of GDP)	57.4	59.1	57.8	56.8	55.1	56.4	53.4	55.3	60.5	64.4	61.6
Net Portfolio Investment (RM billion)	6.8	-9.8	-25.8	-3.5	-41.4	20.6	-20.3	-7.1	0.4	20.0	-4.3
Gross Official Reserves (RM billion)	420.3	425.5	431.3	424.1	440.1	443.1	436.5	432.3	451.0	461.6	482.6
(US\$ billion)	103.0	102.7	103.0	103.6	101.7	103.4	105.0	107.6	108.6	111.1	115.2

Source: World Bank staff calculations based on DOSM data

Labor market conditions softened as the economy slowed down

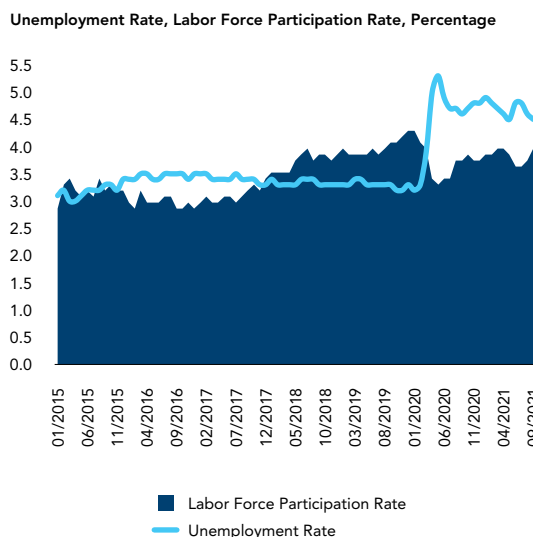
Malaysia's reimposition of movement controls has interrupted the nascent recovery of the labor market. Employment growth in Q3 2021 moderated following the reimposition of movement controls, with the unemployment rate remaining largely unchanged (see Figure 11). Unemployment continues to be driven by relatively high unemployment rates for the 15-24 age group, with these remaining elevated at 11.7 percent in Q3 2021 (Q2 2021: 11.0 percent).

Divergent performance across economic sectors contributed to a variance in the trends in sectoral wage growth. While labor productivity in the manufacturing sector declined by 3.5 percent during the quarter,³ wages in this sector grew by 2.3 percent (Q2 2021: 6 percent), partly reflecting its continued resilience. Conversely, the contraction in the services sector contributed to a decline in both the sector's labor productivity (-6.2 percent) and wage growth (-2.6 percent; Q2 2021: 0.4 percent).

High underemployment rates underscore several structural issues including the lack of affordable childcare

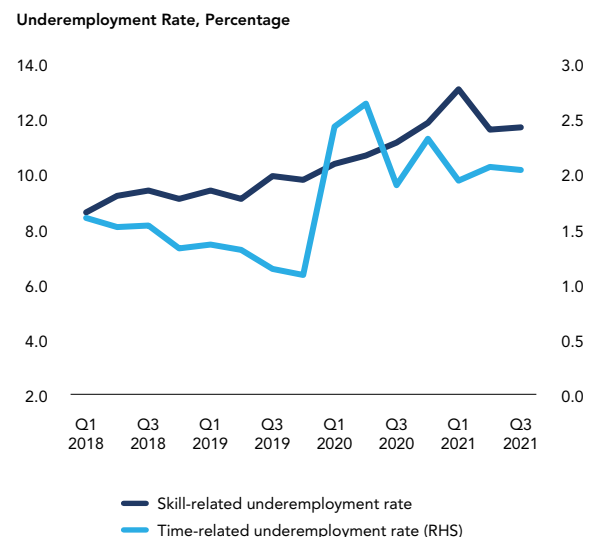
Overall underemployment rates remained elevated, reflecting the continued under-utilization of Malaysia's labor force (see Figure 12). The reimposition of movement controls has contributed to both skills-related and time-related underemployment remaining at elevated levels.⁴ While high underemployment rates are partly due to the slack in the labor market, they also point to a number of structural issues such as skills mismatches, the rise of the informal and gig economy, and the lack of affordable childcare, which undercut the creation of stable jobs.

FIGURE 11
Unemployment rate remained relatively unchanged



Source: DOSM

FIGURE 12
Underemployment rates remained elevated



Source: DOSM

³ Labor productivity is measured as value added per employment

⁴ Skill-related underemployment rate is the fraction of the labor force with tertiary qualification who work in semi-skilled or low-skilled jobs. Time-related underemployment rate is the share of the labor force employed for less than 30 hours per week due to the nature of their work or to the insufficient availability of work.



Malaysia is gradually emerging from the worst wave of COVID-19 infections

Malaysia's daily number of COVID-19 cases has trended down significantly in recent months, relieving some of the pressure on the health system.

In August 2021, the number of new confirmed daily cases surpassed 600 per 1 million people, substantially higher than in all other countries in the region (see Figure 13). However, by 12 December 2021, daily case numbers had declined to approximately 143 per 1 million people, with the hospital and intensive care unit (ICU) utilization rate also declining over this period, with the former standing at 64.9 percent (August 2021: ~95 percent) and the latter at 62 percent (August 2021: ~100 percent) as of 29 November 2021.⁵

The decline in case numbers coincided with the rapid rollout of the National COVID-19 Immunization Program and with measures to improve access to testing. After a slow start in February 2021⁶, the immunization program picked up pace in June, with almost 2 percent of the population being vaccinated each day at its peak in late July. Approximately 78 percent of the population is now fully vaccinated,

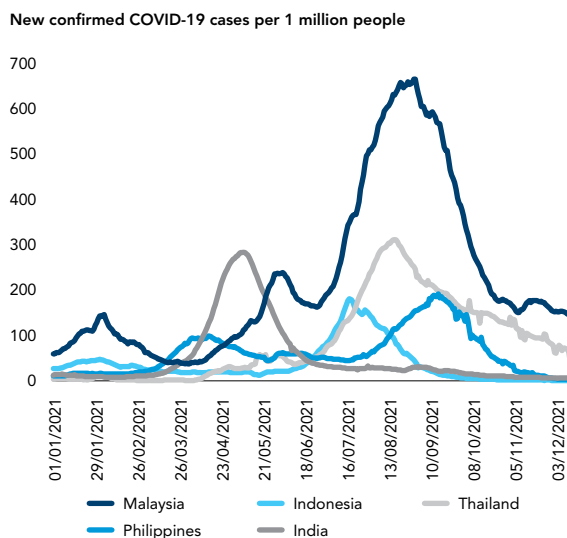
comparing well to other upper-middle and high-income countries in the region (see Figure 14). A booster shot program has now been initiated, starting with high-risk individuals such as the elderly and those who are immunocompromised. In addition, the government has taken steps to ensure greater accessibility to COVID-19 rapid test kits, which are now widely available at pharmacies. Consequently, Malaysia's positivity rate has declined dramatically from a high point of 14.8 percent in September to 3.1 percent as of 14 December 2021.⁷

With the decline in the case numbers, the government has eased most movement restrictions.

Most sectors of the economy are now operating at full capacity, guided by the standard operating procedures announced by the National Security Council (*Majlis Keselamatan Negara*, MKN). Interstate travel is allowed, contributing to the return of domestic tourism. In addition, most schools have also reopened, with many adopting a hybrid teaching mode, involving both online and face-to-face modalities.

FIGURE 13

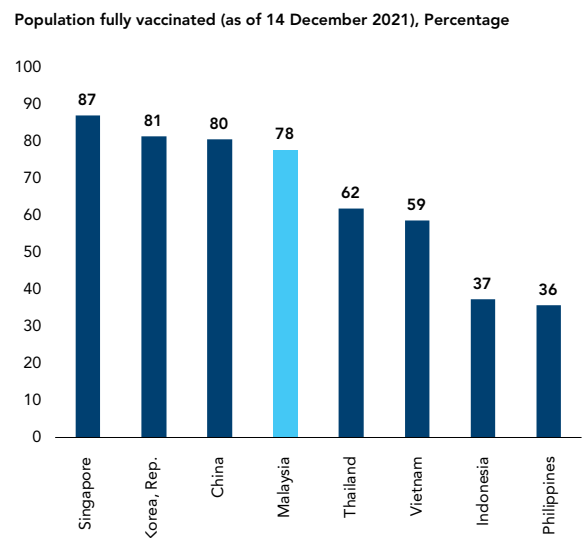
Malaysia's new COVID-19 cases have trended down significantly since August



Source: Our World in Data

FIGURE 14

COVID-19 vaccination coverage is high compared to other countries in the region



Source: Our World in Data

⁵ <https://covidnow.moh.gov.my/>

⁶ See "The Malaysian Health Sector's Response to COVID-19" in World Bank (2021) "Weathering the Surge" Malaysia Economic Monitor (June), World Bank, Washington, DC.

⁷ The World Health Organization (WHO) suggests that a positivity rate lower than 10 percent, and ideally lower than 3 percent, can be regarded as a benchmark of adequate testing.

Financial sector conditions have remained broadly stable

Malaysia’s central bank, *Bank Negara Malaysia* (BNM), maintained the overnight policy rate (OPR) at 1.75 percent throughout the year. The OPR has remained constant since July 2020, when it was lowered from 2.0 percent. Given expectations regarding improved economic performance next year, together with the containment of inflationary pressures, BNM considers the current monetary policy stance to be accommodative.

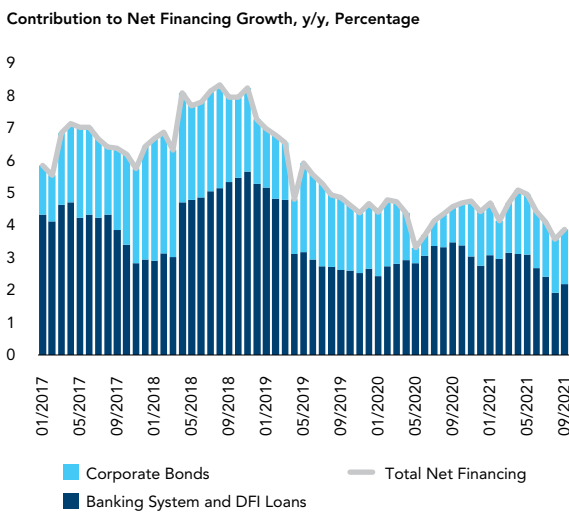
The financial sector remained stable in Q3 2021, with banks maintaining adequate capital and liquidity positions throughout the quarter. The banking sector’s return on equity remained relatively stable at 9.5 percent in the third quarter (Q2 2021: 9.7 percent). Over the same period, return on assets stood constant at 1.1 percent. Liquidity coverage ratio remains high at 154 percent as at end of September, above the statutory requirement of 100 percent. Additionally, banks maintained an adequate capital buffer, with the tier 1 capital ratio standing at 14.9 percent at the end of September 2021. The overall gross loan impairment ratio remained broadly stable at 1.6 percent in September 2021 (August 2021: 1.7 percent). This is likely due to the forbearance measures instituted as part of the government’s response to the

pandemic, since loans under relief, restructuring and rescheduling programs are not classified as impaired.

The slowdown in economic activities resulted in a more moderate expansion to net financing during the quarter (see Figure 15). Net financing expanded at the slower rate of 3.9 percent in Q3 2021 (Q2 2021: 4.4 percent) due to a moderation in outstanding loans. Outstanding household loan growth moderated to 3.2 percent during the quarter (Q2 2021: 5.2 percent) (see Figure 16). Meanwhile, growth in outstanding business loans accelerated, reaching 2.4 percent in Q3 2021 (Q2 2021: 1.3 percent), reflecting a more rapid expansion in working capital loans. The higher growth rate in outstanding business loans was mainly driven by increased loans to the wholesale and retail trade, restaurants and hotels, and manufacturing sectors.

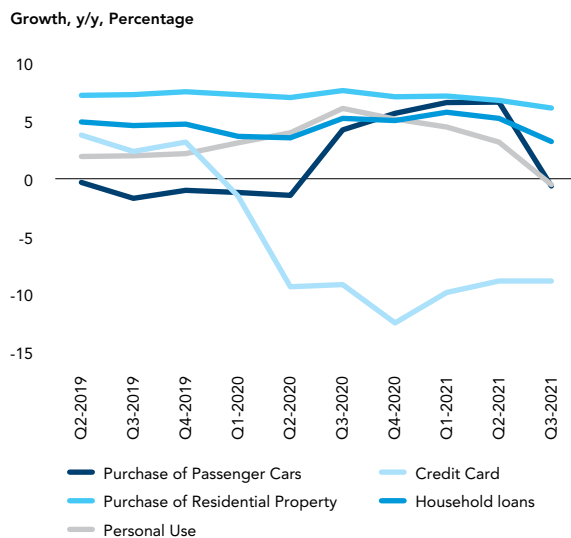
Domestic financial markets have been affected by a number of external developments. Financial market developments in China, persistent supply chain disruptions and energy shortages in several major economies, together with the tapering of the asset purchase program by the US Federal Reserve, caused global bond yields to rise. As a result, the 3-year, 5-year, and 10-year Malaysian Government

FIGURE 15
Net financing expanded by 3.9 percent in Q3 2021



Source: World Bank staff calculations based on BNM data

FIGURE 16
Household loans expanded by 3.2 percent during Q3 2021



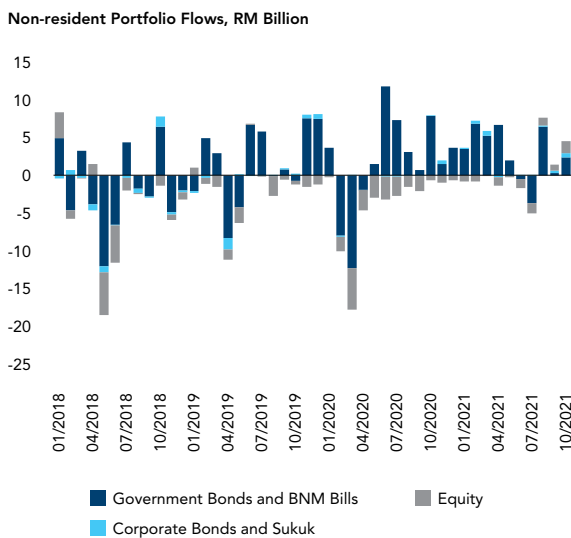
Source: World Bank staff calculations based on BNM data



Securities (MGS) yields increased by 20.7, 38.1 and 9.6 basis points, respectively (see Figure 17). The domestic equity market improved marginally over the quarter, with the FBM KLCI closing slightly higher at the end of September 2021, at 1537.8 points, compared to the

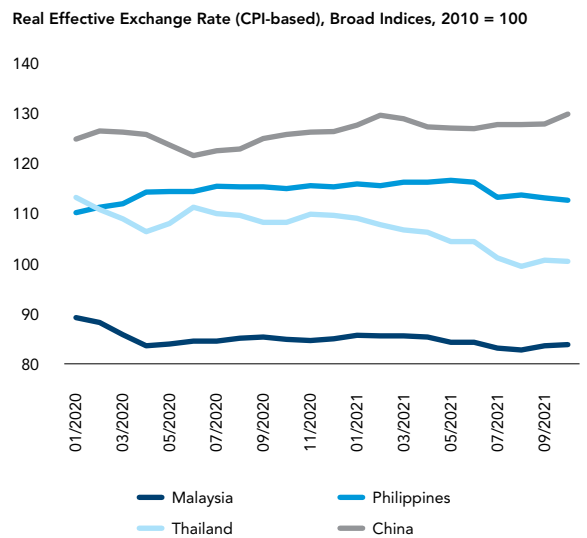
1532.6 points registered at the end of June 2021. The real effective exchange rate (REER) of the ringgit has remained broadly stable in recent months (see Figure 18).

FIGURE 17
Despite unfavorable external developments, the domestic financial markets experienced non-resident portfolio inflows



Source: BNM and Bursa Malaysia

FIGURE 18
The ringgit has remained broadly stable in recent months



Source: Bank for International Settlements (BIS)

The fiscal deficit is expected to widen in 2021

Malaysia's fiscal deficit is expected to widen to 6.5 percent in 2021, reflecting the impact of the COVID-19 pandemic. In the initial budget for 2021, the fiscal deficit was projected to reach 5.4 percent of GDP. However, prolonged movement restrictions imposed in response to the resurgence of COVID-19 infections prompted the government to increase relief spending during the year. Total public spending in 2021 was revised upwards by 0.6 percent of GDP, while the forecast for revenue collection was revised downwards by 0.5 percent of GDP. This resulted in a projected increase of 1.1 percent of GDP to the fiscal deficit. Similarly, the primary deficit is expected to widen marginally to 3.9 percent of GDP in 2021, up from 3.8 percent in 2020.

To support vulnerable households and businesses, the government introduced a series of economic stimulus and relief packages throughout the year.

In total, the government has announced four relief packages this year: *Perlindungan Ekonomi dan Rakyat Malaysia (Permai)*; the Strategic Program to Empower the People and Economy (*Pemerkerja*); the Strategic Program to Empower the People and Economy Plus (*Pemerkerja+*); and the National People's Well-Being

and Economic Recovery Package (*Pemulihan*) (see Table 3). The combined value of these four packages stands at 14.9 percent of GDP, with the value of direct fiscal injections amounting to 1.7 percent of GDP.⁸

The aggregate government expenditure for 2021 was revised upward due to COVID-19 related spending (see Figure 19). Allocations for the COVID-19 Fund was revised upwards from the initial budgeted amount of 1.1 percent of GDP to 2.6 percent. Following the increase in relief spending, total government expenditure in 2021 is now expected to reach 21.1 percent of GDP, compared to the initially estimated figure of 20.5 percent. Meanwhile, revenue in proportion to GDP is expected to decline to 14.6 percent in 2021 (see Figure 20), largely reflecting expected shortfalls across direct tax revenues and investment income excluding Petronas dividend.

Government debt increased further to 63.3 percent of GDP as at end-June 2021 (end-December 2020: 62.1 percent of GDP) (see Figure 21). To accommodate increases to government debt, parliament approved the Temporary Measures for Government Financing Act 2020 to enable an increase to the statutory debt

TABLE 3

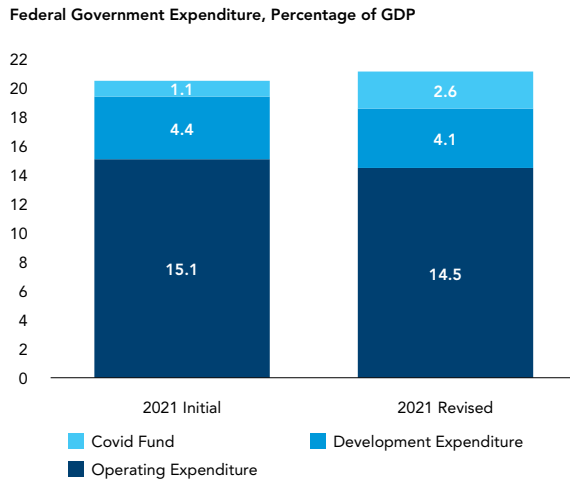
The total value of all relief packages enacted in 2021 stood at 15 percent of GDP

Year	Program	Total Spending		Direct Fiscal Injection	
		Value (RM billion)	% of GDP	Value (RM billion)	% of GDP
1H 2020	PRIHATIN	250	18	25	2.0
1H 2020	PRIHATIN SMEs	10	1	10	1.0
1H 2020	PENJANA	35	3	10	1.0
2H 2020	KITA PRIHATIN	10	1	10	1.0
TOTAL		305	23	55	5.0
1H 2021	PERMAI	15	1	2	0.0
1H 2021	PEMERKASA	20	1	11	1.0
1H 2021	PEMERKASA+	40	3	5	0.0
1H 2021	PEMULIH	150	10	10	1.0
TOTAL		225	15	28	2.0

Source: World Bank staff calculations based on MOF data

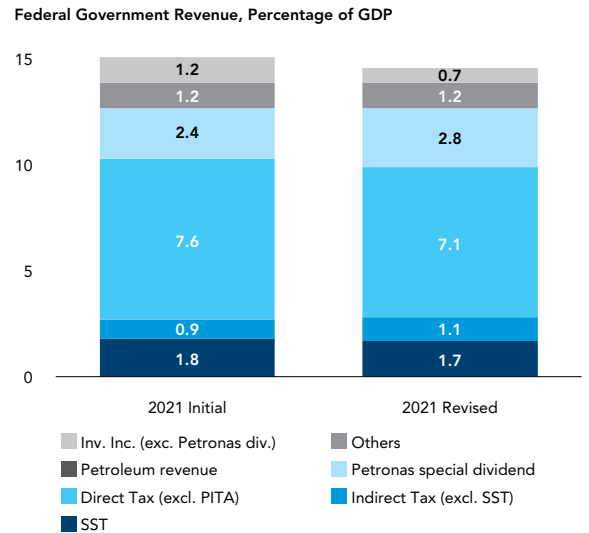
⁸ Based of revised expected GDP in 2021.

FIGURE 19
Federal government expenditure as a share of GDP is expected to rise in 2021 due to pandemic related spending



Source: World Bank staff calculations based on MOF data

FIGURE 20
Federal government revenue as a share of GDP is expected to decline in 2021 due to shortfalls in direct tax revenue and investment income



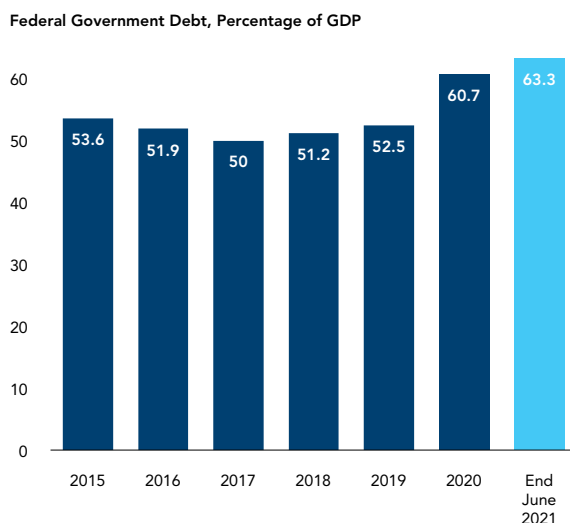
Source: World Bank staff calculations based on MOF data

limit from 60 to 65 percent, following earlier measures to increase the statutory ceiling from 55 to 60 percent of GDP.

As of June 2021, government guarantees had declined from the levels recorded at the end of 2020 (see Figure 22). As a share of GDP, government guarantees declined slightly, going down from 20.8

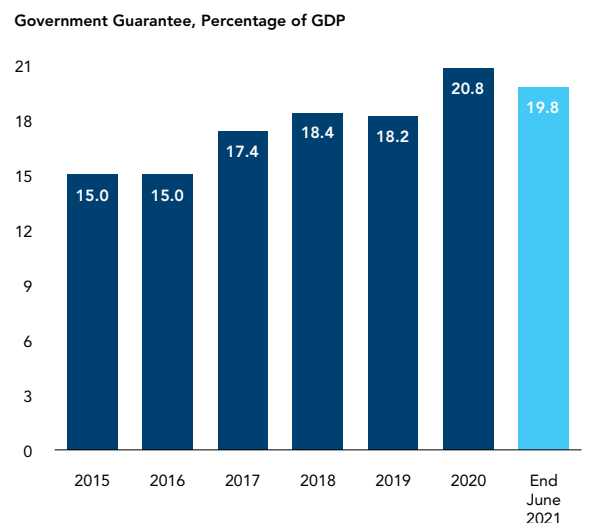
percent at the end of 2020 to 19.8 percent at the end of June. Similarly, committed guarantees declined from 13.1 to 12.6 percent of GDP over the same period. The greatest proportion of the newly issued government guarantees was for the financing of infrastructure-related projects (54.2 percent) and services (26.6 percent).

FIGURE 21
Federal government debt rose to 63.3 percent of GDP at the end of June 2021



Source: World Bank staff calculations based on MOF data

FIGURE 22
Government guarantees as share of GDP declined as at the end of June 2021



Source: World Bank staff calculations based on MOF data

Fiscal space is expected to remain constrained

The government unveiled its proposed budget for 2022 in October 2021, with its total value estimated to stand at 20.3 percent of GDP. The budget for operating expenditure is estimated to reach 14.3 percent of GDP, while the development budget is forecast at 4.6 percent of GDP. The special COVID-19 Fund for 2022 is set at 1.4 percent of GDP. Almost 90 percent of the development budget is for on-going projects (5,575 projects in total), with the remainder for new projects. In particular, the development budget has been allotted to construct and maintain key transport infrastructure; to enhance access to energy and public utilities; and to construct and expand educational institutions and healthcare facilities. Most of the COVID-19 Fund will be channeled towards the provision of cash and social assistance to vulnerable groups and to fund the wage subsidy program.

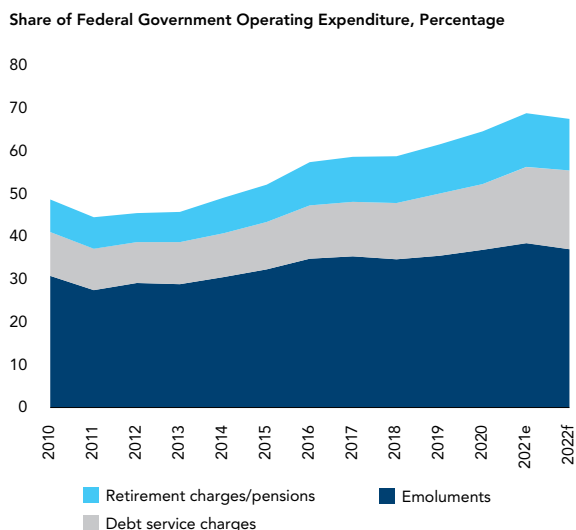
Rigid operating expenditures have grown markedly over time, resulting in significant budget rigidity. The combined spending of emoluments, retirement, and debt service charges is expected to reach almost 68 percent of operating expenditures by 2022, placing additional constraints on the already limited fiscal

space (see Figure 23). The increased expenditure on these items, together with the decline in revenue, will narrow the government’s fiscal space and could pose risks to long-term fiscal sustainability.

Since 2020, expenditure on debt service has exceeded the administrative limit of 15 percent of federal government revenue (see Figure 24).⁹ This expenditure is forecast to continue to increase further to 18.4 percent of federal government revenue in 2022 with the increase in debt. While this is expected in the context of the crisis-related spending, it has contributed to the continued narrowing of Malaysia’s fiscal space, increasing fiscal rigidity and crowding out discretionary spending.

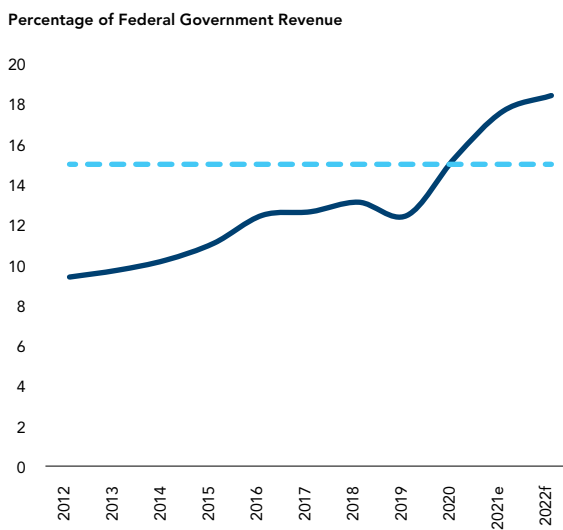
Despite the announcement of a number of new revenue measures, the trend decline in federal government revenue is expected to continue in 2022 (see Figure 25). Federal government revenue is projected to continue its long-term declining trend, going down from 22.3 percent of GDP in 2009 to 14.3 percent in 2022. Although the government has announced a new set of tax measures, including a one-

FIGURE 23
Rigid operating expenditures have grown markedly over time



Source: World Bank staff calculations based on MOF data

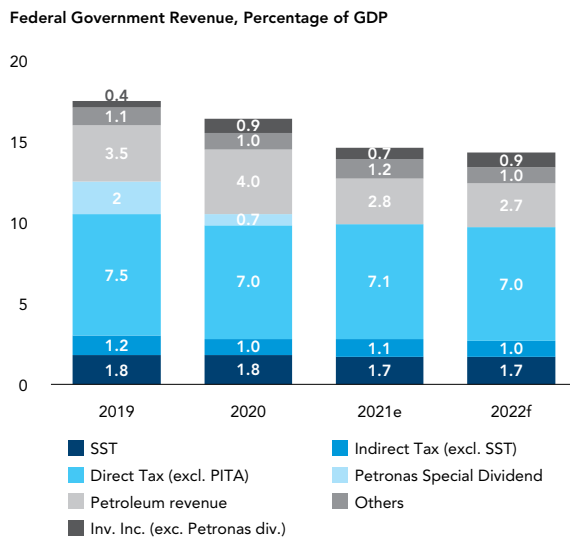
FIGURE 24
Debt service charges is expected to exceed 18 percent of federal government revenue in 2022



Source: World Bank staff calculations based on MOF data

⁹ According to the Administrative Guideline in the Federal Constitution Article 98 (1)(b), debt service charges should not be more than 15 percent of revenue collected. This self-impose administrative rule serves as a tool that guides the government in ensuring prudent public finance management. Nevertheless, in time of a crisis, selected exemptions to the rules and discipline or specific exit clause may be necessary to enable countercyclical measures in rejuvenating the economy. (<https://belanjawan2021.treasury.gov.my/pdf/revenue/2021/section4.pdf>)

FIGURE 25
Federal government revenue is expected to remain on a downward trend in 2022



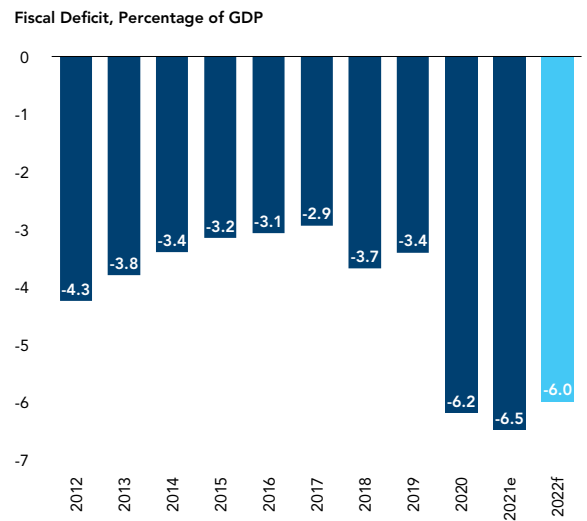
Source: World Bank staff calculations based on MOF data

off windfall tax, taxes on sugar-sweetened beverages, and the removal of tax exemptions on foreign income, the impact is expected to remain small.

In 2022, the fiscal deficit is projected to decline to 6 percent of GDP, compared to 6.5 percent in 2021 (see Figure 26). Revenues in 2022 are projected to decrease to 14.3 percent of GDP, compared to 14.6 percent in 2021. However, government spending is projected to decline to 20.3 percent of GDP in 2022 (2021: 21.1 percent of GDP), leading to a narrowing of the budget deficit. The primary deficit is projected to narrow to 3.3 percent in 2022 (2021: 3.9 percent of GDP).

The Medium-Term Fiscal Framework (MTFF) projects an average fiscal deficit of 5 percent of GDP over the 2022-2024 period. The MTFF in last year's budget projected an average fiscal deficit of 4.5 percent of GDP for this period, based on projected real GDP growth rates in the range of 4.5-5.5 percent. However, following the increased stimulus packages enacted by the government in response to the prolonged economic crises, the projected average fiscal deficit for this period has been revised upwards to 5 percent of GDP. This projection assumes that nominal GDP will expand by an average annual rate of 7.7 percent and that the average price of crude oil will stand at US\$67 per barrel, with an output of 580,000 barrels per day. Structural challenges remain, with revenue over the medium term expected to decline in proportion to GDP, at an average of 13.9 percent over the period.

FIGURE 26
The fiscal deficit is projected to stand at 6 percent of GDP in 2022

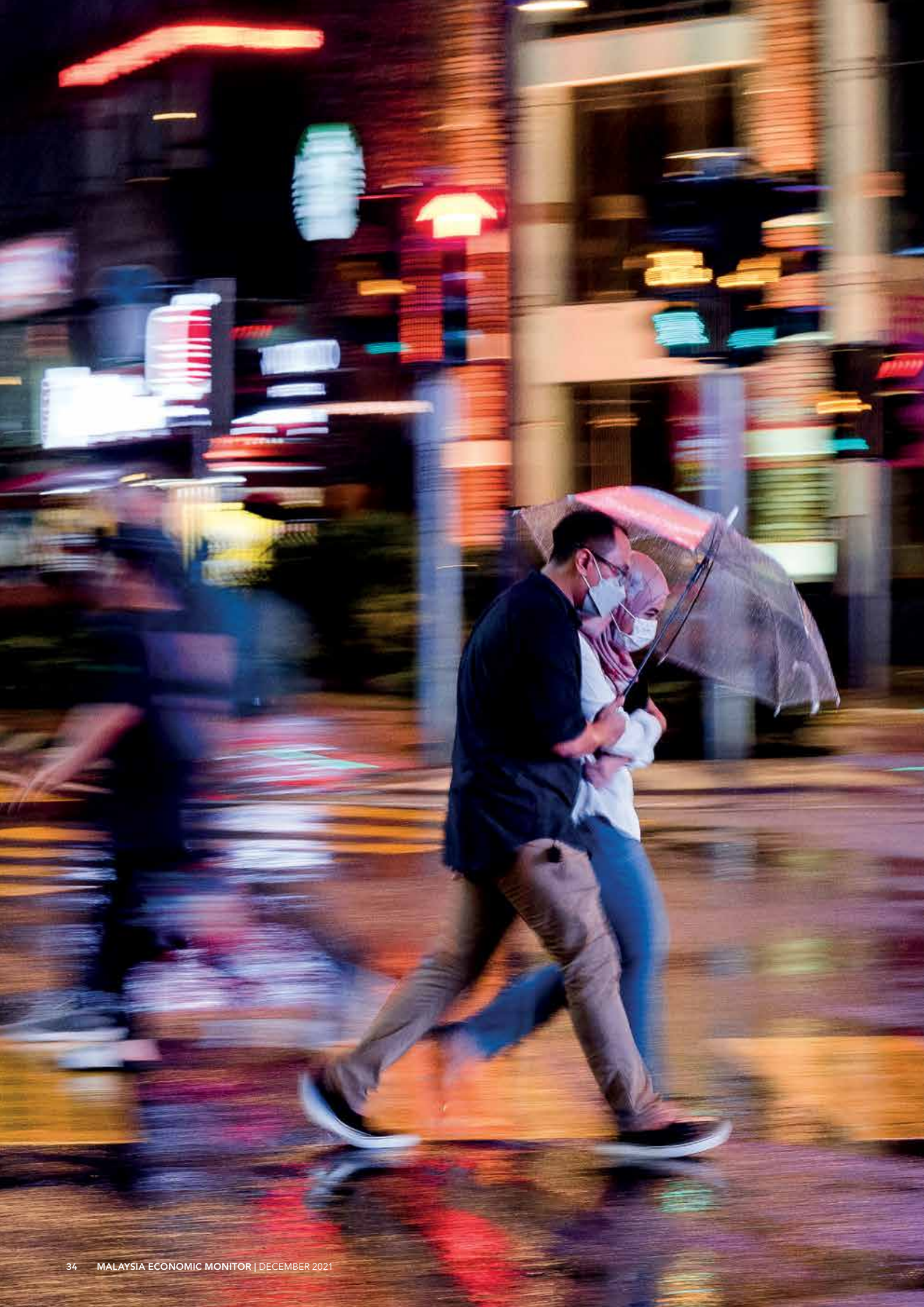


Source: World Bank staff calculations based on MOF data

The government intends to implement a number of measures to enhance revenue collection, including by streamlining its tax policy, reviewing the tax legislation, and modernizing revenue administration.

The declining trend in government revenue is expected to continue in 2022; concurrently, committed expenditures are expected to increase further

To improve the MTFF, the government is currently formulating a Fiscal Responsibility Act (FRA). The FRA is intended to increase accountability and transparency in fiscal policy and to ensure long-term fiscal sustainability. With fiscal policy and management currently regulated by a number of disparate laws and regulations, the proposed FRA aims to establish a single dedicated law. The formulation of the FRA is still ongoing, with the MOF conducting public consultations in early September 2021 to elicit feedback from a range of stakeholders. If properly designed and implemented, the FRA is likely to contribute to the achievement of long-term fiscal sustainability.



Economic outlook

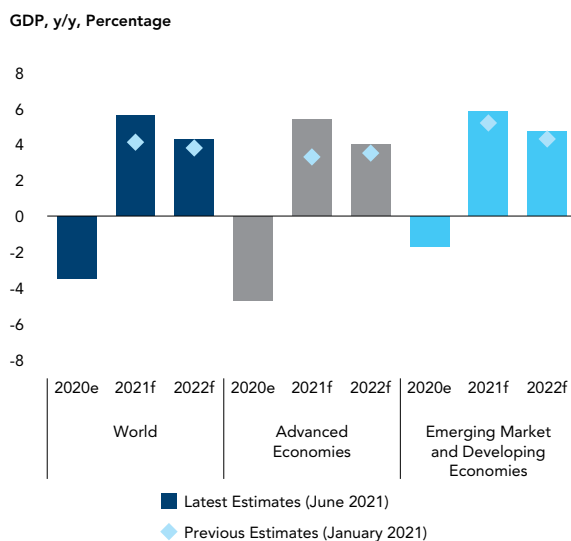
Global growth is projected to moderate next year

While the global economic recovery is expected to continue next year, its pace is projected to moderate. The global economic growth rate is projected to decelerate to 4.3 percent in 2022 (2021f: 5.6 percent), reflecting headwinds from resurgences of the COVID-19 pandemic, continued supply disruptions, and diminished macroeconomic support (see Figure 27). Growth is forecast to moderate to 4.0 percent in advanced economies (2021f: 5.4 percent), with policy support gradually being wound down, although this will be partially offset by the continued release of pent-up demand. Despite this deceleration, the projected pace of recovery is expected to be sufficient to return aggregate output in the advanced economies to pre-pandemic levels, thus completing the cyclical recovery. However, recovery in many emerging markets and developing economies (EMDEs) is expected to be constrained by the ongoing impact of the pandemic, lingering obstacles to vaccine procurement and uptake, and the continued unwinding of macroeconomic support. Aggregate EMDE growth is projected to

moderate to 4.7 percent in 2022 (2021f: 6.0 percent), with the growth trajectories in many economies insufficient to return their output to pre-pandemic levels during the forecast period.

Aggregate growth in EAP is forecast to moderate to 5.4 percent in 2022 (2021f: 7.5 percent), in part reflecting a deceleration in China (see Figure 28). Growth in China is projected to slow to 5.4 percent next year (2021f: 8.5 percent), amid the lingering effects of the pandemic, tighter regulations on certain segments of the economy and diminishing support from exports. Excluding China, growth in the region is forecast to increase to 5.2 percent (2021f: 2.5 percent) in 2022, with the impact of the pandemic waning following the scale up of vaccination programs. However, the speed of recovery differs considerably across countries. In about one-fifth of developing EAP countries, particularly those that rely heavily on tourism, the projected recovery will not be sufficient to offset the pandemic-related output losses over the forecast horizon.

FIGURE 27
Global growth is projected to decelerate to 4.3 percent in 2022



Source: World Bank staff projections

FIGURE 28
Aggregate growth in EAP is forecast to moderate to 5.4 percent next year



Source: World Bank staff projections

Malaysia's economic recovery is expected to gain momentum next year

Malaysia's economy is projected to grow by 5.8 percent in 2022 (2021f: 3.3 percent), driven mainly by a rebound in domestic demand (see Table 3). Private consumption growth is forecast to increase to 7.2 percent next year (2021f: 3.4 percent). This increased growth is premised on further relaxation of pandemic-related restrictions, dissipation of uncertainties, continued policy support, and gradual improvements to employment and income prospects. By contrast, growth in public consumption is forecast to decelerate to 1.3 percent in 2022 (2021f: 3.9 percent) on expectations of reduced COVID-19 related expenditure and the government's optimization of operating expenditure.

Gross fixed capital formation is projected to grow by 5.1 percent (2021f: 2.5 percent), with the acceleration largely driven by a strong rebound in public investment. Projected public investment activity will be supported by the intensified implementation of major existing transportation infrastructure projects, including the Mass Rapid Transit Line 2 (MRT2), the Light Rail Transit 3 (LRT3), and the Pan Borneo Highway, and by the commencement of new projects, including

the Mass Rail Transit 3 (MRT3). Private investment is also expected to improve next year, although at a more moderate pace than public investment.

Malaysia's trade is expected to expand at a more moderate pace next year. Exports are projected to continue to expand, albeit at a slower rate at 4.5 percent next year (2021f: 15.7 percent), in line with softer global trade in goods. The prospects for services exports, particularly travel and tourism, are likely to remain relatively subdued until the pandemic is brought more firmly under control and cross-border travel restrictions are loosened considerably. Imports are forecast to grow by 4.8 percent in 2022 (2021f: 17.3 percent), with broad-based expansion expected across consumption, intermediate and capital imports, in line with stronger consumer spending and continued expansion in exports and investment activity.

Headline inflation is projected to moderate next year, with the base effect of the higher domestic retail fuel prices dissipating. Underlying inflation is expected to be broadly contained over the near term in the absence of immediate domestic cost pressures.

TABLE 4
GDP growth and contribution to growth

Annual Growth, y/y, Percentage					Contribution to Annual GDP Growth (Percentage Point)				
	2020	2021f	2022f	2023f		2020	2021f	2022f	2023f
GDP	-5.6	3.3	5.8	4.5					
Domestic Demand (including stocks)	-5.1	3.4	6.0	4.4	Domestic Demand (including stocks)	-4.8	3.2	5.6	4.1
Private Consumption	-4.3	3.4	7.2	5.9	Private Consumption	-2.5	2.0	4.3	3.6
Public Consumption	3.9	3.9	1.3	0.9	Public Consumption	0.5	0.5	0.2	0.1
Gross Fixed Capital Formation	-14.5	2.5	5.1	3.2	Gross Fixed Capital Formation	-3.4	0.5	1.1	0.7
External Demand					External Demand				
Exports of Goods & Services	-8.9	15.7	4.5	4.4	Exports of Goods & Services	-5.9	9.7	3.1	3.0
Imports of Goods & Services	-8.4	17.3	4.8	4.2	Imports of Goods & Services	-4.7	9.6	3.0	2.6

Source: World Bank staff calculations and projections

The balance of risks for growth is tilted to the downside

A resurgence of the pandemic, including through the emergence of new variants, could dampen economic recovery globally and domestically. Since June, the rapid rollout of Malaysia's national vaccination program has resulted in a steep reduction in daily case numbers, easing the burden on the healthcare system. Nevertheless, the emergence of the more transmissible Omicron variant poses risks to Malaysia's health system. While the government has indicated that it will not reimpose total lockdowns, partial movement restrictions may be implemented, potentially impacting the pace of economic recovery in the near term.

Ongoing disruptions to global value chains could also have a negative impact on Malaysia's trade and manufacturing activities in the near term. Since mid-2020, the rapid recovery in global goods consumption has exerted pressure on the global manufacturing sector. Concurrently, sporadic resurgences of the pandemic in various countries around the world have led to production disruptions at various points along complex global value chains, impacting final goods production. In Malaysia's case, the cooling down of China's economy or a resumption in US-China trade tensions could affect Malaysia's external demand, including through lower demand for Malaysia's commodity-based exports.

Given Malaysia's deep integration with international financial markets, a more rapid than expected monetary tightening could have negative spillovers in domestic financial markets. Monetary normalization in advanced economies, particularly in the US, may result in decreased investor appetite for emerging market assets, a reversal in portfolio flows and heightened financial market volatility. Investor sentiment could also shift rapidly with increased uncertainty regarding the outlook for the pandemic or policy developments. Nevertheless, Malaysia's deep capital market and the presence of large institutional investors could mitigate this volatility.

Increased vulnerability among affected households and businesses could also constrain growth. The pandemic has exacerbated the existing challenges faced by poor and vulnerable households (see Part 2) and businesses in Malaysia, especially SMEs.¹⁰ The recent sharp increase in food prices may constrain households' ability to sustain consumption in the near term, resulting in a slower-than-expected recovery in private consumption. Furthermore, defaults on loan repayments may increase once debt repayment moratoria and other regulatory forbearance measures expire.

The recent sharp increase in food prices may put a strain on households' ability to sustain consumption in the near-term

Nevertheless, there are also upside risks to the growth outlook, predicated on the successful management of the pandemic and minimal disruptions to the re-opening of the economy. This could lead to a faster-than-expected recovery in consumer demand and greater investor confidence, consequently resulting in a more robust recovery in domestic economic activity in 2022. Growth could also benefit from increased technology adoption during the pandemic, contributing to higher productivity growth rates.

¹⁰ World Bank (2021) "Weathering the Surge" Malaysia Economic Monitor (June 2021).

In the near term, the government should continue existing support measures

It is essential to avoid any premature unwinding of assistance measures to ensure that economic recovery remains on track. While the economy is expected to continue to grow next year, the outlook remains highly uncertain, with risks tilted to the downside. It is therefore crucial that the government remain vigilant and apply the appropriate measures to manage and mitigate the impacts of the pandemic. In addition, the various financial and employment assistance programs implemented under the government's stimulus packages should remain in place until economic recovery becomes more entrenched.

Strengthening Malaysia's health system remains important to ensure a safe resumption of economic activity. The immediate focus should be on ensuring sufficient capacity of the health system, including through the supply of oxygen generators to hospitals, expanded intensive care unit (ICU) capacity, and improvements to the associated human resources, supplies, and consumables. During this phase, the government's COVID-19 management strategy should also shift its focus from the number of new daily cases to hospital utilization rates, and continue to implement an effective testing and tracing strategy,

including by ensuring that testing remains accessible and affordable. It will also be necessary to continue to apply non-pharmaceutical interventions, such as physical distancing and masking requirements. Finally, the government should scale up its recently initiated booster vaccine program to provide greater protection to at-risk individuals and contain new outbreaks (see Box 2).

With the gradual reopening of the economy, targeted social spending should remain in place in the near term to protect vulnerable households and businesses. To date, the various support measures, which include cash assistance and wage subsidies, have provided some relief to low-income households and businesses, especially SMEs. With the high degree of uncertainty regarding the health and economic outlook, these measures should remain in place at least for the next six months to help smooth household consumption and support businesses in the event of any unexpected shocks. At the same time, steps should be taken to improve targeting and expand coverage to those who have been excluded from assistance during the pandemic (See Part 2).



BOX 2

Managed Endemicity: The New Normal and its Implications



With increasing global vaccination coverage rates, many countries are now expecting to enter phase of “managed endemicity.” Experience over the past couple of years shows that the elimination of COVID-19 is likely to be unrealistic and unaffordable, given the wide-reaching economic and social impacts of domestic lockdowns and closed borders. Thus, it is likely that societies around the world will choose to find ways of living with COVID-19 other than striving for its elimination through the imposition of economically debilitating measures. In this context, it will be essential to strengthen health systems to meet the challenges faced during this new phase.¹¹

For Malaysia to manage endemic COVID-19 effectively, it needs to strengthen public health measures and to ramp up treatment capacity. It is essential to increase testing capacity and to invest in automated contact tracing systems. Increasing treatment capacity (including through the supply of oxygen generators to hospitals, expanded ICU capacity, and improvements to the associated human resources, supplies, and consumables) will also be important. At the height of the pandemic in July and August 2021, ICU and ventilator utilization exceeded capacity.¹² In addition, it may be necessary to develop a system to enable the effective management of mild and

asymptomatic cases at home, such as in Singapore’s Home Recovery Program, which is now the default approach for most cases.

Apart from improving health outcomes more generally, longer-term investments in public health care may enable Malaysia to mitigate the impact of future pandemics more effectively. With the COVID-19 pandemic, it is clearly established that underlying health conditions, including cardiovascular disease, diabetes, and chronic respiratory disease, exacerbate vulnerability to the disease. Even outside the context of the current pandemic, these conditions are the top three contributors to Malaysia’s burden of disease. The improved prevention and treatment of these noncommunicable diseases, including in the primary health care setting (before diseases progress to more severe stages) is therefore critical, not just to mitigate the impact of the current pandemic, but to improve health outcomes more generally. The pandemic has also forced governments to rethink their service delivery systems, with digital health becoming an important option. This could include electronic patient registers, track and trace systems, telemedicine etc., to enable effective pandemic management and to ensure the continuity of essential health services.

¹¹ <https://openknowledge.worldbank.org/bitstream/handle/10986/36396/Managing-Long-COVID-in-East-Asia-and-the-Pacific.pdf?sequence=1&isAllowed=y>

¹² <https://covidnow.moh.gov.my/>

As the recovery becomes more entrenched, fiscal policy should focus on rebuilding fiscal buffers

To restore the government's fiscal space, efforts to enhance revenue collection should remain a top priority over the medium term. Even before the pandemic, government revenue has been on a downward trend for nearly a decade, and has declined further in the wake of the COVID-19 crisis. In this context, efforts to increase revenue collection through the imposition of a more progressive tax framework need to be accelerated, with a clear implementation timeline. In particular, consideration should be given to broadening the tax base by reviewing and streamlining exemptions on personal income tax and by enhancing the consumption tax framework (see Box 3). The government has announced that it is preparing its Medium-Term Revenue Strategy (MTRS), which is intended to enhance revenue collection by reviewing tax legislation and modernizing revenue administration.

Concurrently, it is vital for the government to increase its spending efficiency over the medium term. There are several areas that it could examine to achieve this, including improving the targeting of social spending and phasing out generalized and regressive subsidies, such as fuel subsidies. While spending on blanket subsidies especially on fuel and cooking oil have to a large extent, helped to put a lid on price pressures, these subsidies constitute the largest share of the government's social and subsidies spending at about 48 percent in 2021.¹³ In addition, the government may need to consider measures to contain the rising costs of public wage bill and pensions and to ensure better outcomes from spending on health and education. There should also be an ongoing focus on reducing wastage and leakages through strengthening public investment project selection and management systems and processes.

As recovery becomes more entrenched, steps could be taken to consolidate and recalibrate existing support programs. Over the years, the government has introduced, implemented, and reformed numerous instruments and programs to support a wide variety of SME activities. With new programs being designed to

expedite the recovery of the private sector following the pandemic, there is an opportunity to recalibrate these programs towards priority areas, such as through initiatives to build the digital capabilities of SMEs and thus to increase private sector growth and resilience. Additionally, the recalibration of some of programs, especially those related to the pandemic, could potentially alleviate the government's fiscal pressures going forward.

It is important that significant measures are taken on raising human capital, especially on the education front, which have experienced significant disruption during the pandemic

Over the medium term, the government could also establish policies to address the gaps in social safety nets and to improve human capital. The pandemic has exposed a number of gaps and limitations in the ability of Malaysia's existing social safety net system to adequately protect poor and vulnerable households in crises, despite a range of relief measures for these households. Going forward, the government could take action to address the shortcomings in the social safety net, including through consolidating various existing programs. The government should also strive to strengthen human capital, particularly through measures to improve educational outcomes, especially given that the educational system has experienced significant disruptions as a result of the pandemic. These issues, and the policies that could be implemented to address them, are explored in greater detail in Part 2 of this edition of the MEM, titled *Staying Afloat*.

¹³ It is estimated that spending on these two subsidies would amount to RM8 billion (0.5 percent of GDP) or 48 percent of total social and subsidies spending in 2021.

BOX 3

Malaysia's Consumption Tax Systems: Challenges and a Path Forward

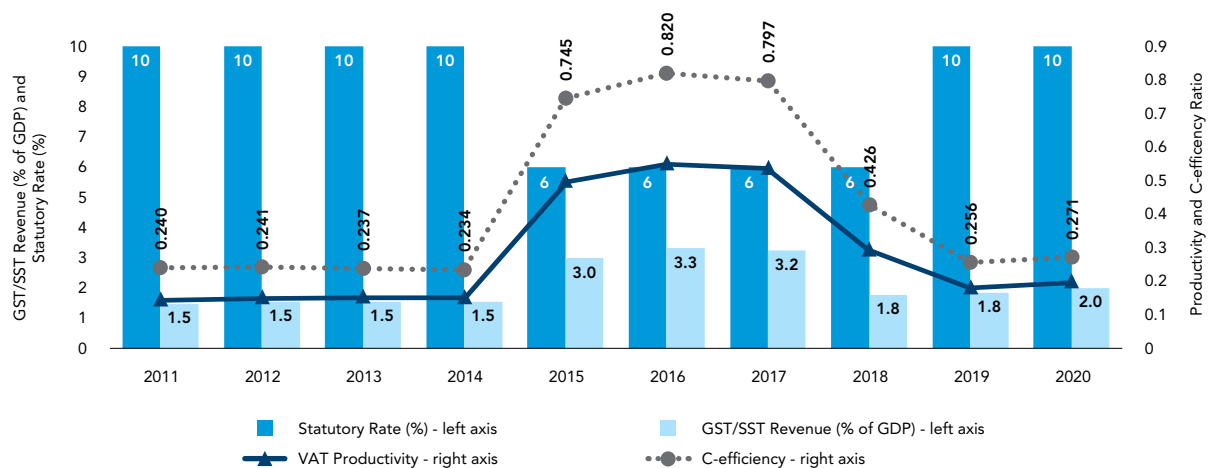
It is vital for Malaysia to rebuild its fiscal buffers by increasing revenue collection. With the pandemic resulting in both increased government expenditure and decreased revenue collections, Malaysia's fiscal deficit widened to 6.2 percent of GDP in 2020.¹⁴ At present, Malaysia's revenue collection is relatively dependent on corporate income tax (CIT) and petroleum income tax. This has motivated the government to consider a shift to a more stable and sustainable revenue structure. In this context, the government is considering options to broaden the revenue tax base and to enhance the efficiency of tax collection. One possible option would be to reintroduce the good and service tax (GST).¹⁵ The government previously introduced the GST on April 1, 2015, and subsequently replaced it with a

sales service tax (SST) on September 1, 2018, due to concerns regarding its regressivity and its impact on the purchasing power of low-income households.¹⁶

The GST is viewed as a more efficient way to mobilize consumption tax revenues than the SST for three reasons. First, by widening the tax base and bringing more firms into the tax net, the GST could provide nearly twice as much tax income as the SST. In 2018, around 80,000 businesses in Malaysia were registered under the SST, compared to 472,000 businesses under the GST. In addition, a total of 5,445 goods in the consumer price index (CPI) basket were exempted from the SST, compared to only 545 that were exempted from GST.¹⁷ The total value of collected

FIGURE 29

The GST is viewed as a more efficient way to mobilize consumption tax revenues



Source: World Bank Staff calculations

¹⁴ 2022 Fiscal Outlook and Federal Government Revenue Estimates

¹⁵ Ibid.

¹⁶ IMF - Malaysia: Selected Issues Paper, Report No. 15/59, January 30, 2015.

¹⁷ Source: Total of 5,445 consumer goods to be exempted from SST | The Star <https://www.thestar.com.my/news/nation/2018/08/30/total-of-5445-consumer-goods-to-be-exempted-from-sst/>



GST averaged at around 3.2 percent of GDP over the 2015-2017 period, more than double the total value of collected SST over the 2011-2014 period (see Figure 29). The GST itself may also be less prone to leakages than the SST regime. In single-stage sales taxation systems, where the tax is only collected at a single stage of the value chain, the fact that some businesses manage to slip out of the tax net will diminish tax revenue collection. By contrast, with the imposition of GST, if revenues are not collected at one stage, they are collected at other stages. Thus, a GST regime is less risky in terms of revenue leakage.¹⁸

Second, while the GST is more complicated to implement than the SST, the former is more transparent. The GST system is by nature self-policing, requiring businesses to issue invoices to claim input tax credits. Specifically, the GST is based on invoices issued by the trader to the purchaser, which can be cross-checked to identify any overstatement of tax refunds, hence discouraging evasion. It also encourages businesses to register for input tax credits

claim on their supplies, which increases the number of GST registrants and the transparency of the supply chain.

Third, the GST avoids cascading effects and reduces distortions. Compared to other indirect or sales taxes, the GST avoids 'cascading' –i.e. where taxes are applied twice to any ingredient of the final product or service. The GST often replaces single-stage taxation systems, where the cascading effect is common because the tax generates a series of distortions from the first stage of production to the last stage of retail sales distribution. These distortions could encourage tax evasion and collusion between buyers and sellers, consequently affecting the tax's potential to generate revenues.

These features of the GST system act to increase the efficiency and productivity of the consumption tax system. The C-efficiency, which measures the gap between the potential consumption tax base and actual tax revenues generated, and is one means to estimate

¹⁸ Malaysia Economic Monitor June 2015.

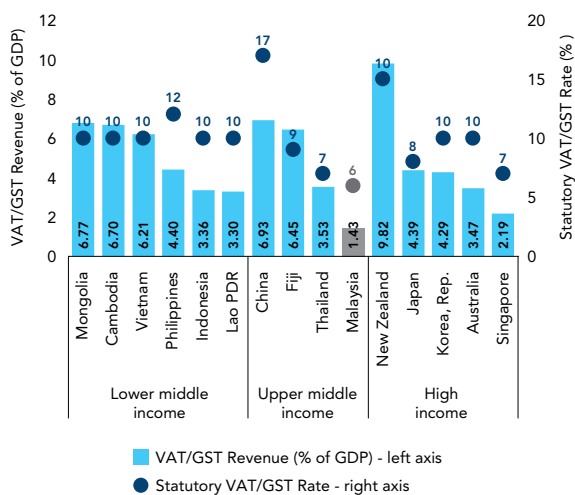
the efficiency of GST/ VAT. Malaysia's C-efficiency, at around 0.8 during the period from 2015-2017 when GST was imposed, was much higher than the figure of 0.3 for the SST period (see Figure 6).

Given this, policymakers may consider the GST as an available option for reforms intended to increase government revenues. However, there are a number of issues that would need to be addressed. First, the GST is inherently regressive because lower-income households pay a larger share of their income in taxes than do their higher-income peers. International experience suggests that the equity gains from exemption and zero-rate in the GST is usually outweighed by increased efficiency costs. In 2015, to alleviate the impact of the GST on lower-income households, the Malaysian government set a lower rate than did many other countries and provided generous zero-rate and exemptions. The standard GST rate of 6 percent and the average c-efficiency of Malaysia's consumption tax during the 2010-2020 period stood at 0.4, lower than the figure recorded by any other ASEAN countries (see Figure 30). The government could consider offsetting the regressive effects of the GST regime by increasing government spending targeted at lower-income groups.

The GST may result in substantial compliance costs for businesses, particularly SMEs. The time and monetary cost involved in filing input tax claims (and training staff) may still be an issue for businesses, especially smaller businesses and traders that do not have adequate resources or skills. To alleviate these costs on businesses, under its previous GST regime, the Malaysian government introduced a number of measures to reduce compliance costs, such as providing tax reliefs.¹⁹ However, there were concerns regarding the time taken for businesses to receive GST refunds, which resulted in cash flow burdens. There were also reporting issues, with businesses and auditors having to assess whether a long-outstanding input tax credit claim is truly recoverable. To address these issues, the government could consider various policy options, such as providing a sufficient transition period, setting an adequate threshold to exclude small and micro businesses, and granting companies support to further enhance the automation or digitalization of their daily operations and to train key personnel, while striving to ensure that the GST system is as simple as possible. In addition, it is important to streamline tax administration processes to reduce the time taken to receive tax refunds and to increase the likelihood of the success of such tax reforms.

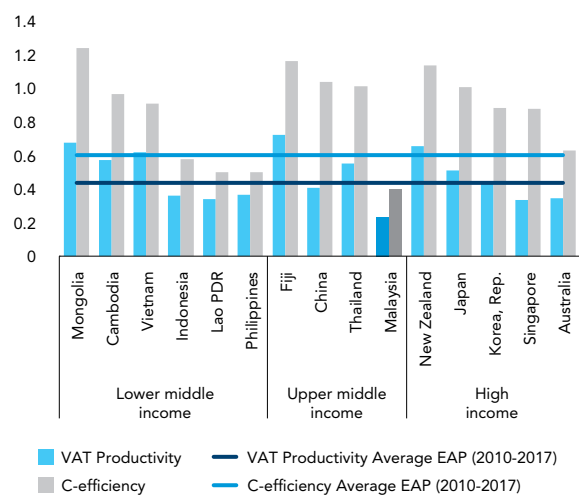
FIGURE 30
GST could have a negative impact on low-income households

VAT/GST Rate and Collection, EAP Region, 2019



Source: MOF Malaysia and World Bank staff calculations

VAT/GST Productivity²⁰ and C-efficiency, EAP Region



Source: MOF Malaysia and World Bank staff calculations

¹⁹ (i) Training grant of RM100 million provided to businesses for their employees to attend GST courses;(ii) financial assistance amounting to RM150 million provided to SMEs for the purchase of accounting software;(iii) accelerated capital allowance on purchase of information and communications technology ICT equipment and software; (iv) expenses incurred for training in accounting and ICT relating to GST will be given additional tax deduction (IMF 2015, extracts from articles).
²⁰ VAT/GST productivity ratio is the ratio of actual VAT/GST revenues to the product of the standard VAT rate and GDP.



PART TWO

Staying Afloat



Staying Afloat

The pandemic has exacerbated existing challenges faced by poor and vulnerable Malaysian households

As with people around the world everywhere, the pandemic has had a massive impact on the lives of Malaysians. After successfully containing the first wave of the COVID-19 pandemic, Malaysia subsequently experienced surges in the number of daily cases from September 2020 onward. By June 2021, Malaysia had the highest rate of confirmed cases per million people in the East Asia and Pacific (EAP) region. In addition to the direct morbidity and mortality impacts of the disease, measures to control the spread of the virus have had far-reaching effects on people's lives and livelihoods. Efforts to curb infections through multiple movement control orders (MCOs) have impacted business operations across Malaysia, leading to most businesses either scaling down their operations or being forced to close. Affected by both demand and supply shocks, businesses have made employment adjustments, mainly by reducing working hours and lowering wages. Moreover, a large proportion of businesses, particularly SMEs, have endured pressing liquidity constraints.²¹ This has contributed to the highest unemployment levels since the Asian financial crisis, with unemployment peaking at 5.1 percent in Q2 2020 and still elevated at 4.7 percent as of Q3 2021.²² At the household level, the weakening labor market has translated into job losses or temporary redundancy, often with a severe impact on household incomes.

The pandemic has disproportionately impacted poor and vulnerable Malaysian households. In 2020, the pandemic led to a global economic downturn,

hitting the labor market hard, pushing millions into poverty, and further increasing inequality.²³ In Malaysia, official estimates suggest that the proportion of households living below the national poverty line increased from 5.6 percent in 2019 to 8.4 percent in 2020. Income inequality, as measured by the Gini index, increased from 40.7 in 2019 to 41.1 in 2020.²⁴ Beyond the immediate and near-term economic impacts, the pandemic is expected to have long-lasting consequences. In particular, the prolonged school closures and their impact on the delivery of educational services could lead to the loss of human capital in the longer run.²⁵ The impact on children from poorer households has been particularly severe. In particular, these children face serious constraints on their participation in online learning modalities, with 37 percent of Malaysian students not owning or having regular access to devices such as smartphones, tablets, laptops, or personal computers.²⁶

Even before the advent of the pandemic, an increasing number of Malaysians, in both low- and middle-income groups, were struggling to make ends meet.²⁷ Broadly, Malaysia's strong economic growth over the past decades has benefited citizens by enhancing economic opportunities and enabling them to earn higher incomes. From 2015 to 2019, median nominal monthly salaries and wages for employees increased from RM 1,942 (US\$ 458) to RM 2,442 (US\$ 576).²⁸ Over the same period, the median real household income grew by an average rate of 3.9 percent per year.²⁹

²¹ World Bank. 2021b. Malaysia Economic Monitor, June 2021, Weathering the Surge.

²² Department of Statistics Malaysia. 2021a. Labour Market Review Q3 2021.

²³ World Bank. 2020b. Poverty and Shared Prosperity 2020: Reversals of Fortune.

²⁴ Department of Statistics Malaysia. 2021b. Household Income Estimates and Incidence of Poverty Report 2020.

²⁵ Miguel, E. and Mobarak, A. M. 2021. 'The Economics of the COVID-19 Pandemic in Poor Countries'. Annu. Rev. Econ. 14: Submitted. DOI: <https://doi.org/10.1146/annurev-economics-051520-025412>.

²⁶ BERNAMA. (April 15, 2020). Accessed through <https://www.kkmm.gov.my/en/public/news/16859-bernama-15-april-2020-kpm-serah-kepada-guru-tentukan-kaedah-pengajaran-dan-pembelajaran-menteri>.

²⁷ World Bank. 2020a. Aspirations Unfulfilled: Malaysia's Cost of Living Challenges.

²⁸ Salaries and wages refer to wage rate consisting of basic wages, cost-of-living allowances and other guaranteed and regularly paid allowances in cash or in kind and overtime payment. However, it excludes bonuses and gratuities, family allowances and social security payments made by employers. Converted into US\$ at exchange rate US\$ 1 = RM 4.24.

²⁹ Department of Statistics Malaysia. 2021d. Salaries and Wages Survey Report 2020.



However, there has been a growing sense among low- and middle-income Malaysians, particularly those living in urban areas, that these headline successes have not translated into real improvements in their daily lives. In 2018, nearly 30 percent of Malaysians responding to a survey stated that they did not have enough money for food, twice the proportion that expressed a similar view in 2012.³⁰ The perceived increases in the cost of living stem from a range of issues not directly related to the rising prices of goods and services, including lagging income growth, high levels of household debt, and increasing housing costs.³¹ Furthermore, real income growth has slowed considerably, from a high average annual rate of 10 percent or more in the period from 2009 to 2014, to only 5.5 percent from 2014 to 2016. As a result, over recent years, an increasing proportion of households have members with secondary jobs or more than one member in the workforce, partly to meet expenses that can no longer be covered by the income of the primary breadwinner alone.³² Households have also increasingly tended to resort to borrowing, including through personal finance loans and credit cards, to maintain their living standards. With these challenges, many Malaysians entered the COVID-19 crisis with household balance sheets that were already stretched.

This special topic focuses on that low- and middle-income households have faced during the COVID-19 crisis, with a focus on three key issues.

First, it examines the way in which the pandemic

has exacerbated the vulnerability of low-income households and informally employed workers. Second, it assesses the manner in which the existing social protection system may have excluded or failed to provide adequate support to these vulnerable groups. Third, it discusses how the pandemic has widened existing learning gaps between children and the implications of this for the longer term. The analysis is mainly based on findings from two rounds of the World Bank's High-Frequency Phone Survey (HiFy), which took place in May-June and October-November 2021. These nationally representative surveys provide near real-time insights into issues related to employment, income, food security, access to public services, economic coping strategies, and the coverage and effectiveness of the public policy response (see Box 4). The analyses conclude with a set of short- and medium-term policy recommendations. In the short term, the focus should be on maintaining financial support for the poor and vulnerable, achieving greater inclusivity, and facilitating children's learning. Over the longer term, measures should aim to address the shortcomings in the current social protection system to make it more impactful in addressing poverty and inequality and more responsive to shocks. In addition, it will be necessary to manage the pandemic's long-term impact on livelihoods, well-being and human capital development.

³⁰ Gallup World Poll. 2018.

³¹ World Bank. 2019a. Malaysia Economic Monitor, December 2019, Making Ends Meet.

³² World Bank-University of Malaya qualitative living standards survey in 2019, undertaken by a team of researchers led by Niaz Asadullah.

BOX 4

The HiFy survey: Monitoring of Household Welfare during COVID-19



The pandemic has made clear the need for timely and representative data to inform policy making.

To alleviate the economic impact of the COVID-19 pandemic, the Malaysian government has implemented a series of stimulus packages, worth a combined total of more than RM 850 billion. With the pandemic continuing to unfold, often in an unpredictable manner, timely, granular, and representative information is crucial to enable policy-makers to monitor the impact of the crisis and to determine the effectiveness of their policy measures. Several surveys have been conducted to provide insights into the immediate impact of the pandemic on the economy and at the household level, including surveys conducted by the Department of Statistics Malaysia (DOSM) and UNICEF. However, none of these surveys was nationally representative, nor were they conducted on a recurring basis.

To meet the need for rapid and representative data to monitor the dynamics of households' welfare over the course of the pandemic, the World Bank has conducted a High-Frequency Phone Survey (HiFy) to determine its socioeconomic impacts at the household level.

The HiFy involves 25–30 minute telephone interviews with more than 1,000 panel respondents aged 18 years and above across the country. This nationally representative survey covers key topics related to livelihoods and other socioeconomic issues, including people's access to health services, vaccination status, employment and income changes, household concerns and coping strategies, safety nets, digital adoption, and level of satisfaction with the government's response during the crisis. The survey is

implemented in three rounds: the first round of data collection was conducted in May–June 2021; the second round was recently completed in November 2021; and the third round is planned for February 2022.

The phone interviews employ a random digit dialing (RDD) method using the Malaysian Communications and Multimedia Commission's (MCMC) active mobile provider list.

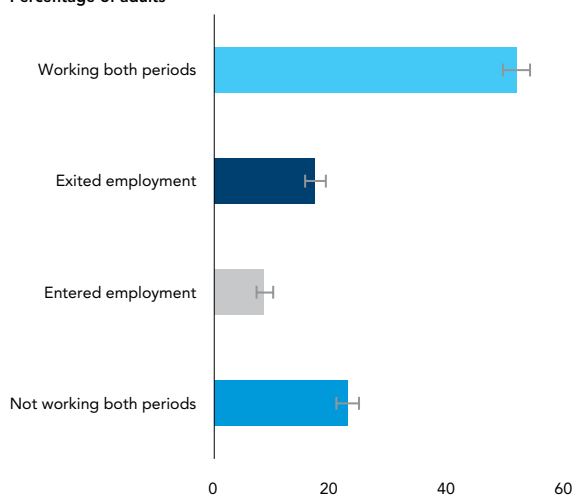
The survey is conducted in three languages (Bahasa Malaysia, Mandarin Chinese, and English). With a small sample size and relying only on mobile users who were willing to answer the call, the HiFy has encountered a greater unequal selection probability and non-response than conventional household surveys. To ensure the representativeness of the HiFy sample, the completed survey data were adjusted through post-stratification weighting based on DOSM's 2019 and 2021 population estimates for Round 1 and Round 2 respectively. Moreover, to avoid respondents' fatigue leading to non-response, the 25–30 minute HiFy phone-based interviews utilized close-ended questions. While the selected questions cannot probe as deeply as conventional surveys, they are informed by key indicators relevant to tracking the livelihood and welfare impacts of the pandemic. With these caveats, the HiFy provides a valuable source of near real-time representative information to monitor the differential socioeconomic impacts of the pandemic to household-level welfare and to generate insights and input to inform policy-making processes by identifying gaps that may need to be addressed by scaling up or redirecting policy responses as the crisis unfolds.

Employment has fluctuated, with low-income and informally employed workers particularly affected by the shocks

There has been considerable churning in employment. The HiFy survey shows that, over one year into the pandemic, the share of Malaysian working adults had decreased from 69 percent in February 2020 to 60 percent by June 2021, with quite some churning throughout the period. As of June 2021, 26 percent of respondents had their employment status changed compared to February 2020, with a small share of new entrants to the workforce (see Figure 31). Furthermore, 25 percent of those who were employed in February 2020 had stopped working by June 2021, whereas 35 percent who continued working had experienced reduced incomes (see Figure 32). Hence, while the churning in employment suggests a certain level of resilience within the economy, it may also indicate the greater need for some households to have multiple members earning an income, mainly to compensate for the income losses as experienced by the breadwinner or other household members.

FIGURE 31
Throughout the pandemic, 26 percent of respondents experienced employment changes...

Change in employment status between February 2020 and May–June 2021, Percentage of adults

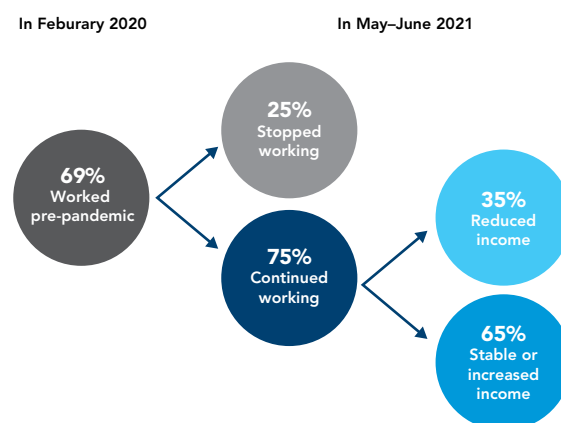


Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

Low-income, less-educated, youth, and older workers were more likely to be exposed to employment disruptions. The initial impacts of the pandemic on the labor market appeared to be widespread across income groups and education levels. However, consistent with observations in low- and middle-income countries globally,³³ low-income and less educated groups, as well as youth in Malaysia have experienced relatively greater difficulties, with greater work disruptions, more pronounced income shocks, or both. Low-income earners, those with secondary education or below experienced, and youth, were more likely to experience work stoppages (see Figure 33). Older persons, that is, those aged 65 and older, were also more likely to experience work stoppages. Moreover, these groups of workers were also more likely to change jobs in order to be able to continue to work throughout the pandemic. Among those who were working since March 2020, 24 percent of low-income earners (RM 2,000 and below)

FIGURE 32
...while some of those who worked at the onset of the pandemic had stopped working or faced income losses

Employment changes and income shocks, Percentage of adults



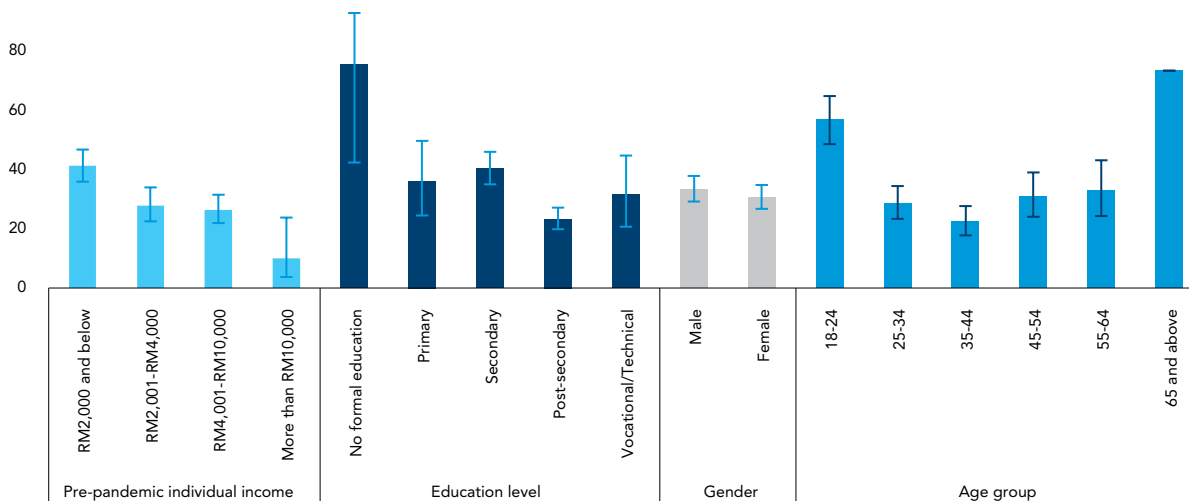
Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

³³ World Bank. 2021a. The Short-Term Impacts of COVID-19 on Households in Developing Countries: An Overview Based on a Harmonized Data Set of High-Frequency Surveys.

FIGURE 33

Low-income, less educated, youth, and older workers are more likely to stop working during the pandemic

Stopped working at any time since March 2020, Percentage of adults working in March 2020



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

had changed jobs by June 2021, compared to 6 percent of high-income earners (more than RM 10,000).³⁴ Similarly, 23 percent of workers with only primary education had held a number of different jobs by June 2021, as compared to 14 percent of those who completed post-secondary education. Furthermore, 49 percent of youth aged 18-24 had changed jobs by June 2021, compared to only 17 percent of persons aged 25-34, and even lower shares of persons aged 35 and older. It is also worth noting that both men and women experience similar degrees of work stoppages and job changes.

Informally employed workers were relatively more susceptible to loss of employment and reductions in income during the pandemic than formal workers.

The HiFy survey found that apart from low-income and less educated workers, informally employed workers (defined as those who do not receive contributions to either the Employees' Provident Fund, EPF,³⁵ or Social Security Organization, SOCSO,³⁶ from their current employer) were also more severely impacted by the pandemic. Based on this definition, the rate of informal employment in Malaysia in 2016 is estimated at 33 percent.³⁷ Moreover, informally employed workers accounted for 44 percent of households in the bottom 20 percent of income distribution. Among the bottom

40, the share of informally employed workers was 37 percent. The HiFy survey found that, overall, 39 percent of informally employed workers had stopped working at some point since March 2020. The share of job losses among informally employed workers was particularly high in the sales, mining and manufacturing, and construction sectors, where a high level of physical presence is typically required, with these sectors being among the hardest hit during the first MCO (see Figure 34). Furthermore, low-income informally employed workers, who were already vulnerable prior to the crisis, were also relatively more likely to experience job loss (see Figure 35).

During the period in question, new entrants to the labor market appear more likely to have entered the informal workforce.

Those who were not working at the onset of the pandemic were more likely to have obtained informal jobs, rather than formal jobs, during the May-June 2021 period (see Figure 36). Moreover, women are more likely to have entered the informal workforce during the crisis compared to men (see Figure 37). This suggests that for those outside the labor force during a crisis, it may be easier to access informal jobs than formal jobs, particularly for women. As such, informal jobs have served an important role of

³⁴ Due to limitations on time and the need to be concise, the HiFy did not ask for detailed information on incomes as in a conventional survey (i.e., asking each household member, and each type of labor and non-labor income, either cash or in kind). As a result, incomes reported in the HiFy are likely to be lower (under-reported) than those in a conventional survey. This therefore also affects the share of households in each income category, particularly in the lowest category (RM2,000 and below), making that share higher than the share of households for the same category obtained from a conventional survey, such as the Household Income Survey (8 percent).

³⁵ EPF is the retirement savings institution with the largest coverage in Malaysia, which provides the country's main private sector retirement savings scheme.

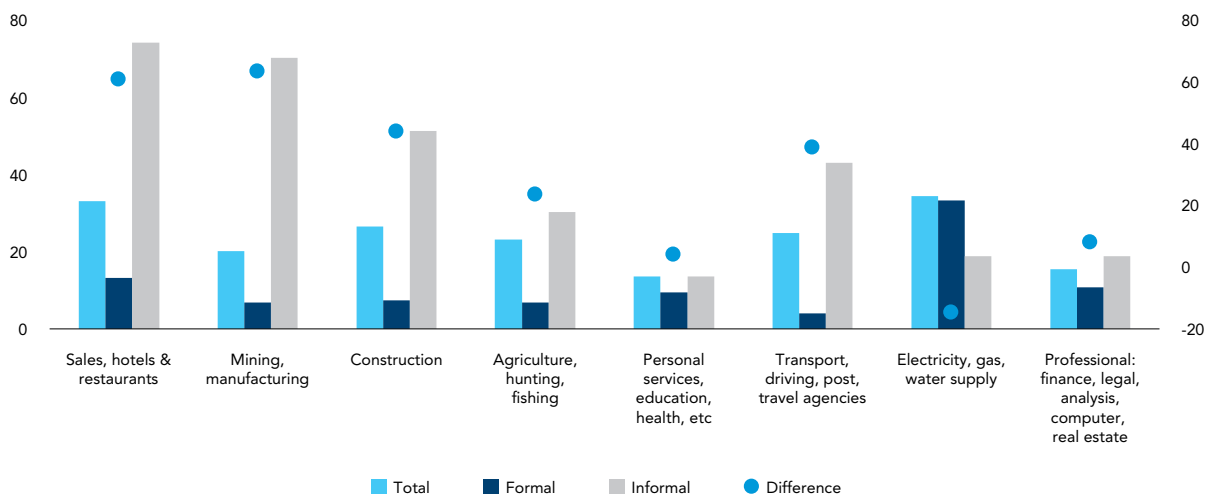
³⁶ SOCSO is a government agency under the Ministry of Human Resources that provides social security protection for all employees and self-employed insured persons against employment-related injuries in Malaysia.

³⁷ Public sector workers are excluded. World Bank staff calculations using Household Income Survey 2016 (DOSM).

FIGURE 34

Informally employed workers were more susceptible to job losses during the pandemic, particularly those working in sectors requiring high levels of physical contact...

Share of those who stopped working at some point in the period from March 2020 to June 2021, Percentage of wage workers

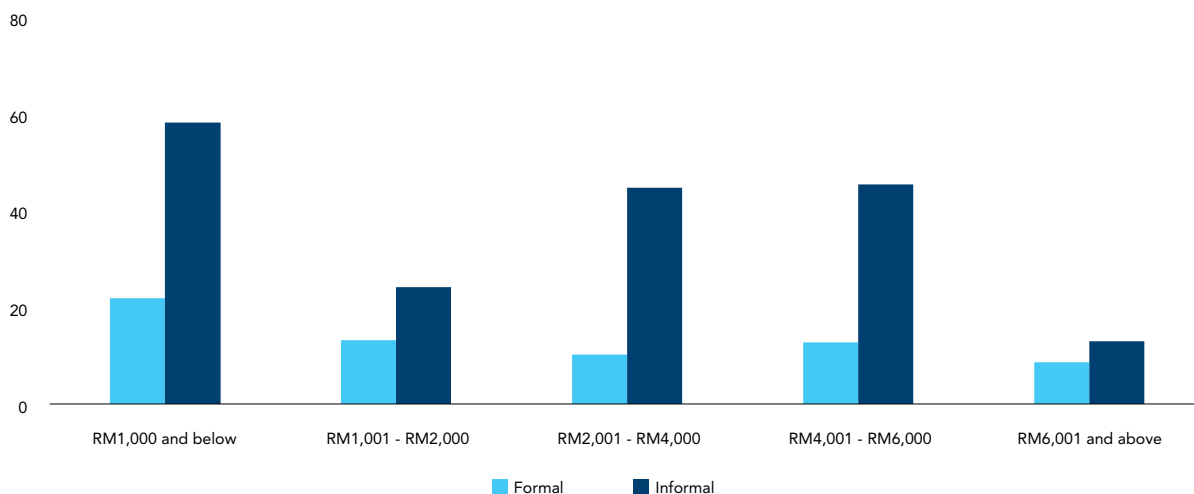


Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

FIGURE 35

...and those with the lowest level of income

Share of those who stopped working at some point since March 2020, Percentage



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

providing these new entrants with the means to earn an income, and therefore as a shock absorber during this time of crisis.³⁸ Nonetheless, informal jobs do not offer adequate protection and may not be ideal in the longer term. The shift toward informal employment and lower-paying jobs means that the nature of employment has become more precarious and less remunerative. However, it was also found that between May-June and

October-November 2021, the proportion of formally employed workers to total employment increased slightly. This suggests that the economic recovery is translating into relatively higher growth of formal jobs (see Figure 38), with men benefiting only marginally more than women (see Figure 39).

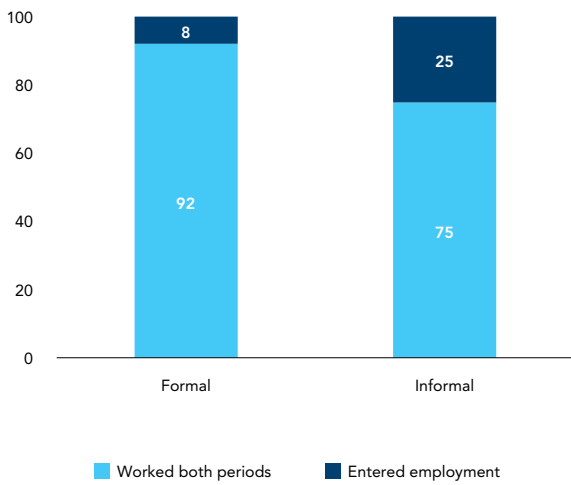
Informally employed workers were more likely to

³⁸ McCaig and Pavcnik. 2021. Entry and Exit of Informal Firms and Development.

experience income reductions and irregular wage payments, resulting in higher food insecurity and limited ability to pay rent. As seen in Figure 40, informally employed workers were more likely to experience a reduction in income during the pandemic (46 percent) than formally employed workers

FIGURE 36
Informally employed workers are more likely to have entered employment during the pandemic

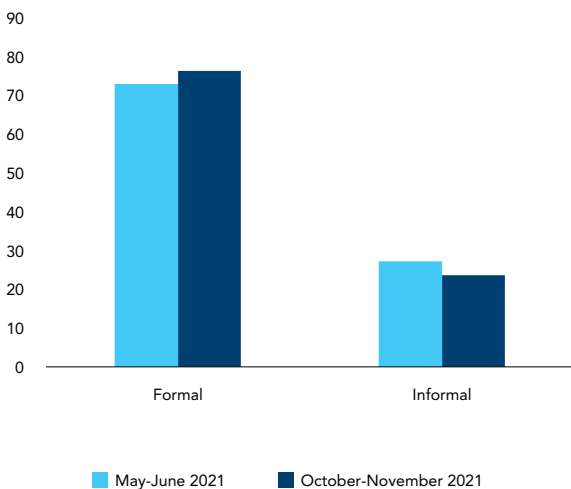
Employment changes among wage workers, between February 2020 and May–June 2021, Percentage



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 38
The share of formally employed workers slightly increased in the past few months, in tandem with the reopening of the economy...

Employment status among wage workers, Percentage

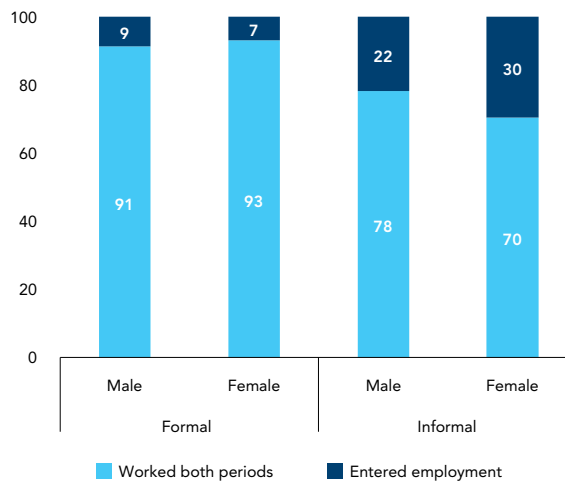


Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

(24 percent). This is particularly pronounced among informally employed men (see Figure 41). As discussed earlier, people who had lost their jobs – both men and women – may have had to accept lower paying, informal jobs. Given the higher share of men than women in the labor force, and the gender gap in earnings prior

FIGURE 37
...with women being more likely to have entered informal employment compared to men

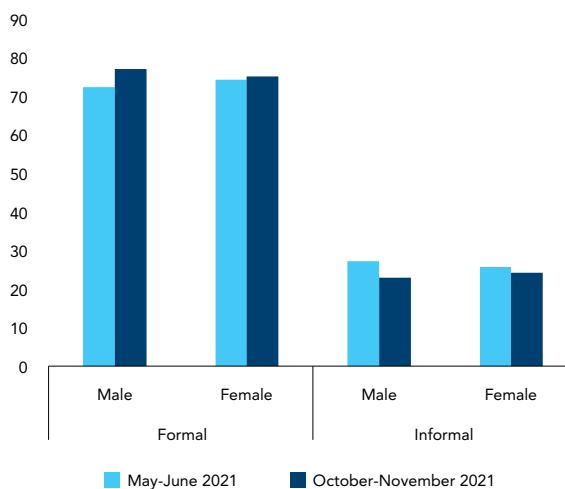
Employment changes among wage workers, between February 2020 and May–June 2021, Percentage



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 39
...with men being marginally more likely to be formally employed

Employment status among wage workers, Percentage

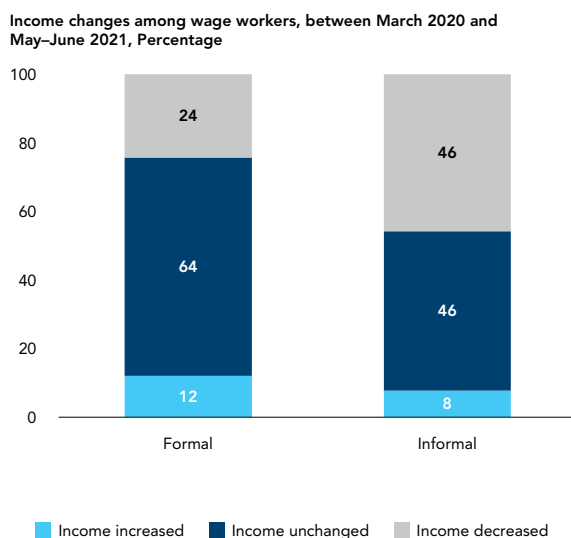


Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

to the pandemic,³⁹ this effect was more pronounced among men. In addition, informally employed workers were less likely to have received normal payments in the past 30 days than were formally employed workers, and more likely to have received no payment at all. Consequently, informally employed workers were

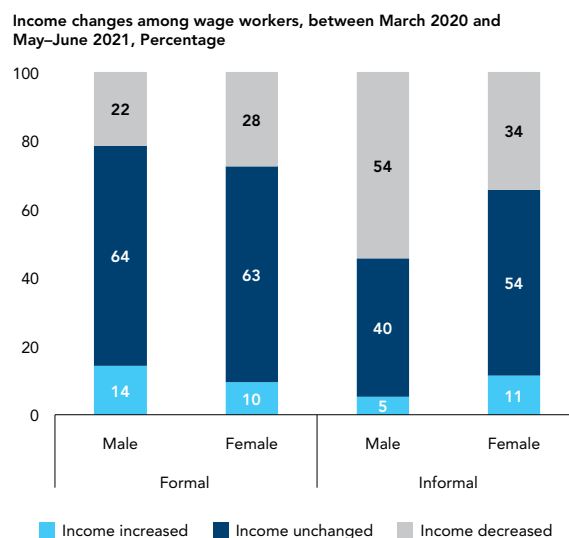
more likely to have faced food insecurity and were less likely to be able to pay rent than formally employed workers (see Figure 42). These effects were especially pronounced among informally employed workers from low-income households, and for those who had experienced decreased income (see Figure 43).

FIGURE 40
Informally employed workers were more likely to have experienced a reduction in income...



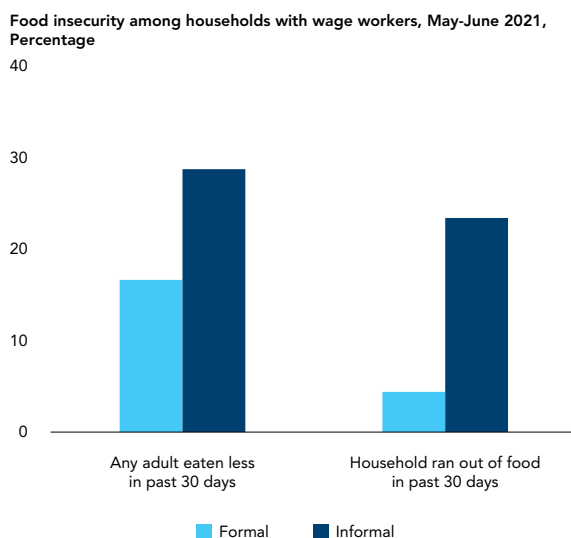
Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

FIGURE 41
...a phenomenon which is most apparent among informally employed men



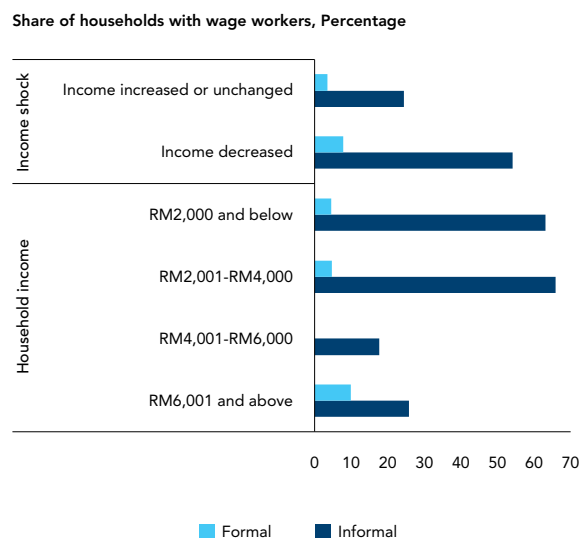
Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

FIGURE 42
Food insecurity was more prevalent among informally employed workers...



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

FIGURE 43
...who were also much more likely to have faced difficulties paying rent



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

³⁹ World Bank. 2019b. Breaking Barriers: Toward Better Economic Opportunities for Women, September 2019.

Although the economy is gradually recovering, the progress is uneven, leaving low-income households and informally employed workers more vulnerable

Over one year into the pandemic, the impact of pandemic-related shocks on Malaysia has been less severe than in the case of a number of regional peers, with a lower incidence of income loss and food insecurity and with a higher incidence of government assistance received (see Figure 44).⁴⁰ The HiFy survey suggests that 41 percent of Malaysian households had experienced income losses by June 2021, with 26 percent having members who ate less than they thought they should. At the same time, 58 percent of surveyed households reported receiving some form of government support during the pandemic. These findings put Malaysia roughly on par with Indonesia in terms of household resilience, but lower than Mongolia,

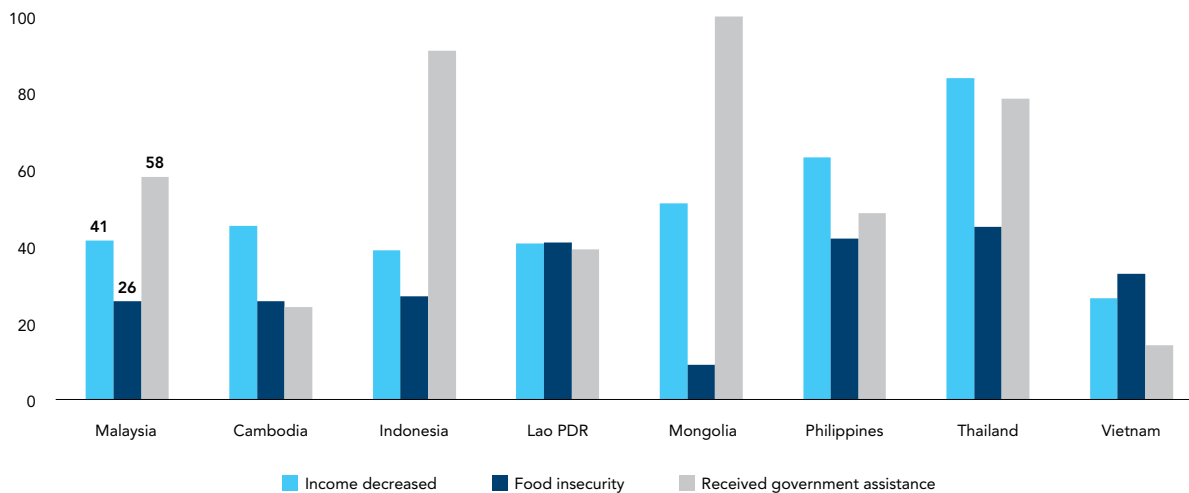
Indonesia, and Thailand in terms of coverage of public policy response.

However, there are indications that low-income households were relatively less resilient. With the gradual re-opening of the economy, half of the people who had worked prior to the pandemic but had stopped working by around June 2021 had returned to work by November 2021. Also, one-quarter of workers no longer reported experiencing income losses by November 2021. These improvements to the financial situation also translated into improvements in terms of some socioeconomic indicators, with a lower reported prevalence of food insecurity, with this returning to pre-

FIGURE 44

Malaysia has fared slightly better in terms of income resilience, food security, and government support during the pandemic than its regional peers

Households who experienced shocks during the pandemic, Percentage based on each country survey



Source: World Bank. 2021. COVID-19 High-Frequency Household Monitoring Survey.

Notes:

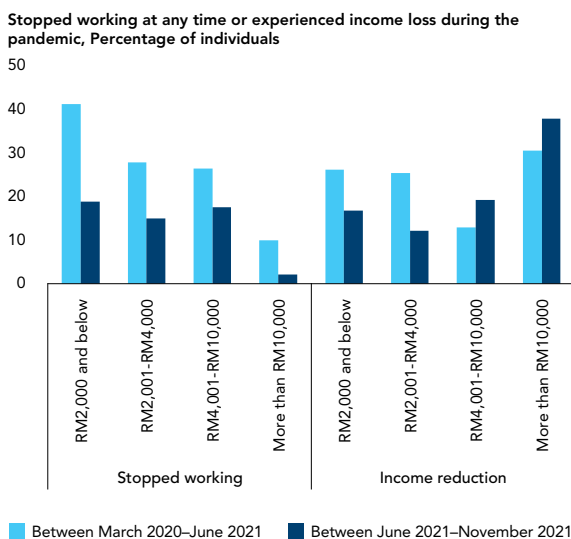
1. Survey periods differ across countries, with most conducted between March and June 2021. Some exceptions include: The variable "Food insecurity" in Vietnam is obtained from July 2020.
2. "Food insecurity" refers to the question wording, "At any time in the past 30 days, have you, or any other adult in your household, eaten less than you thought you should because of a lack of money or other resources?"
3. "Received government assistance" refers to household coping strategies that involve any government aid during the crisis, except for Cambodia, Lao PDR, and Vietnam, which use data specifically from those receiving COVID-19-related government assistance.

⁴⁰ World Bank. 2021a. The Short-Term Impacts of COVID-19 on Households in Developing Countries: An Overview Based on a Harmonized Data Set of High-Frequency Surveys.

pandemic levels. However, while signs of improvement can be seen across most income groups (see Figure 45), the adverse impacts of the pandemic on employment, income, food security, and education continue to linger among lower-income households (see Figure

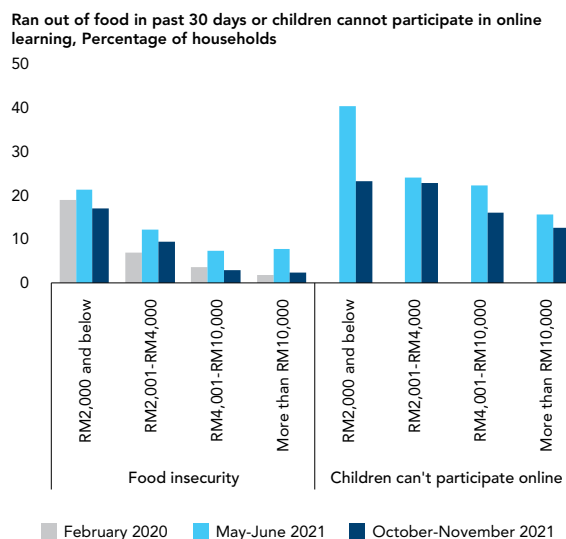
46). This suggests different degrees of resilience across income groups, with low- and middle-income households relatively more likely to remain vulnerable and potentially at a disadvantage into the future.

FIGURE 45
While signs of improvements are observed across most income groups...



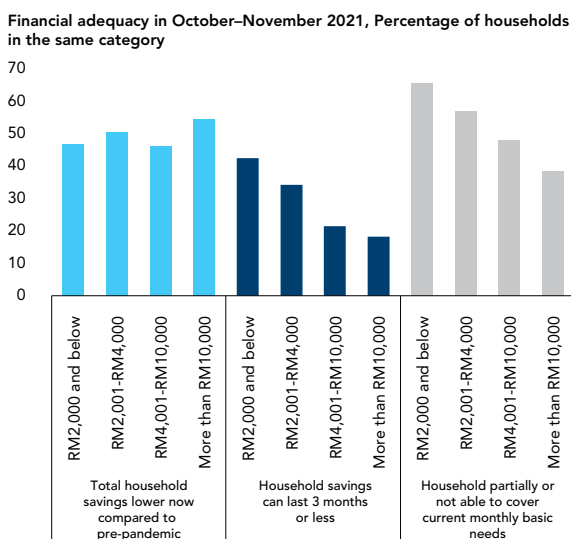
Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 46
...the adverse impacts of the pandemic remain higher among low-income households



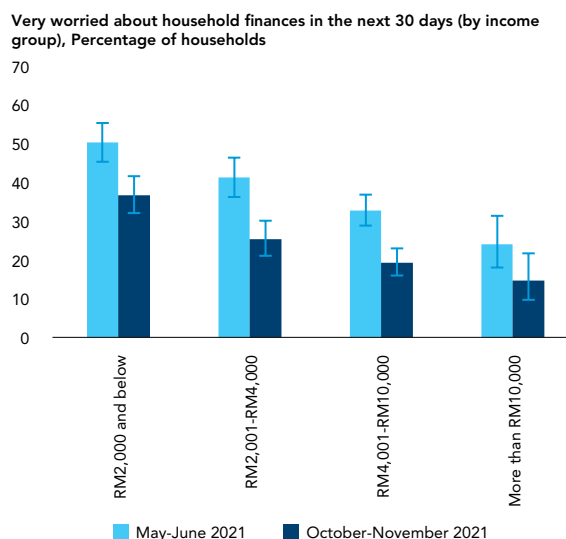
Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 47
Low-income households are more likely to have limited savings and financial constraints to cover their basic needs...



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 48
...and they are also more likely to be very worried about their household finances in the near future



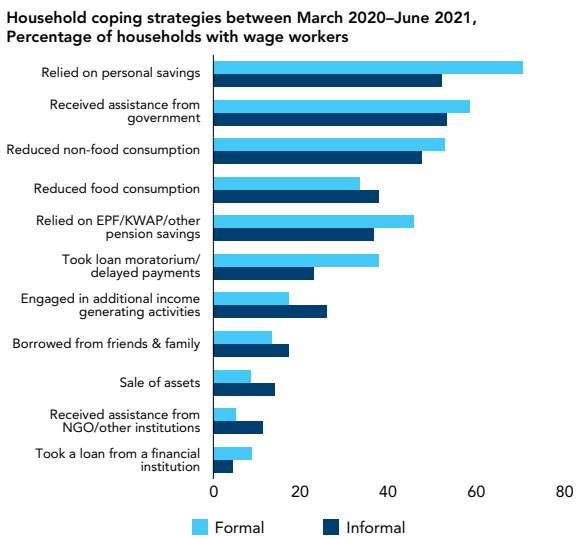
Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

The employment and income disruptions experienced during the pandemic have resulted in increases to the level of financial vulnerability of low-income households. In the HiFy survey, the most frequently mentioned household coping mechanism during the early stages of the pandemic was withdrawal of personal savings. Consequently, nearly half of all households reported having lower savings by October–November 2021 than prior to the pandemic. This carries greater implications for lower-income households than for wealthier households. More than 40 percent of households that earned RM 2,000 or less in the pre-pandemic period reported that they had only three months or less of savings by October–November 2021 (see Figure 47). Moreover, 66 percent of households in the low-income group reported that they were unable or only partially able to cover their monthly basic needs using their own resources and the government assistance they had received. As a result, low- and middle-income households expressed a high level of concern regarding their financial well-being in the immediate future (see Figure 48). This high level of concern among low-income households is reasonable, given their limited savings and the relatively greater work interruptions and income losses they had experienced since the onset of the pandemic compared to high-income households.

Informally employed workers were more likely to rely on harmful coping strategies that may reduce their households' long-term productive potential in the aftermath of the pandemic. Informally employed workers relied more heavily on harmful coping strategies, such as reduction in food consumption and sale of assets (see Figure 49), even among those who received government assistance. This reflects the inadequacy of government transfers to fully offset the effects of shocks among low-income households, particularly among informally employed workers. These strategies are deemed more harmful because they can affect the ability of households to participate in productive activities as the economy recovers, and can have long term effects on human capital development. Even during the recovery period by November 2021, informally employed workers were still more likely to have depended on these harmful coping strategies (see Figure 50).

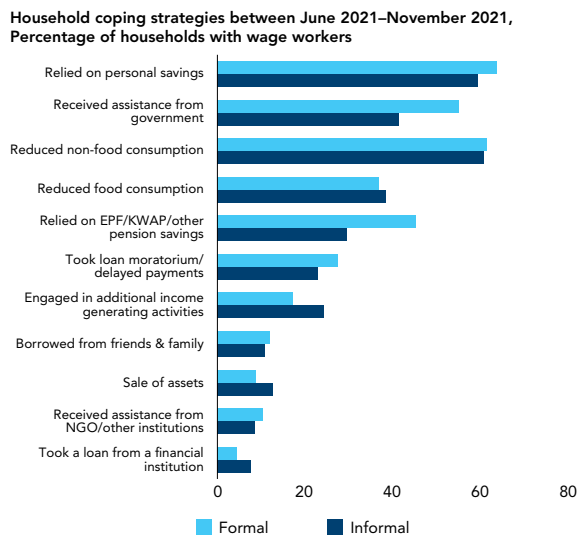
Conversely, formally employed workers were more likely to draw on formal entitlements and cash reserves to smooth consumption. This includes through the EPF, government pension funds (KWAP), or other pension savings, and personal savings (see Figure 49 and Figure 50). Withdrawals from pension savings, particularly EPF, proved to be an important coping

FIGURE 49
Harmful coping strategies, such as reducing food consumption and selling assets were more likely to be adopted by informally employed workers...



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 50
...even during the recovery period



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

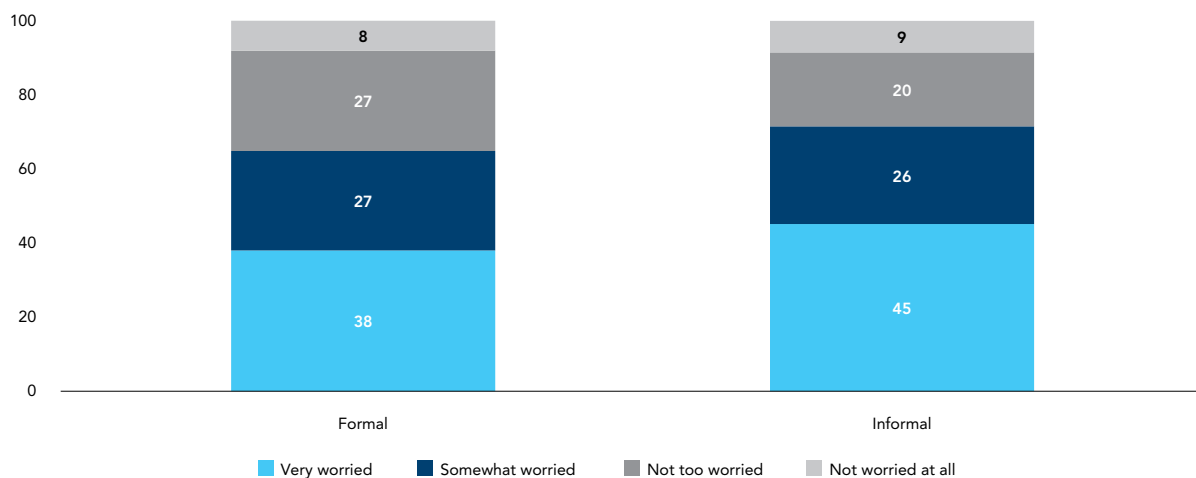


mechanism as EPF withdrawals totaled RM 101 billion by October 2021, disbursed to over 7.4 million members.⁴¹ As a result of not having these formal entitlements, there was a slightly higher reliance on informal borrowing in the earlier part of the pandemic among informally employed workers. This could also indicate their limited access to loans from financial institutions – compelling them to seek informal loans more intensively – and

community recognition of the higher vulnerability of informally employed workers, which may have resulted in greater flows of altruistic loans toward them in the context of the crisis. Furthermore, a higher share of informally employed workers stated that they were very worried about their finances than did formally employed workers (see Figure 51).

FIGURE 51
Financial distress is apparent more among informally employed workers

Concerns about household finances, May–June 2021, Percentage of households with wage workers



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1).

⁴¹ EPF Media Desk (October 31, 2021). Accessed through <https://www.kwsp.gov.my/en/-/epf-focused-on-rebuilding-members-retirement-savings-following-exceptional-withdrawal-facilities>.

A large share of those not covered by social insurance, such as informally employed workers, were also excluded from government assistance

In response to the pandemic, the government broadened the coverage of its social assistance programs, increasing the income eligibility threshold of its flagship cash transfer program and establishing mechanisms to deliver the benefits swiftly. Specifically, the main emergency cash transfer program, *Bantuan Prihatin Nasional* (BPN), was extended to households earning up to RM 8,000 (US\$ 1,887)⁴² per month and to individuals earning up to RM 4,000 (US\$ 943) per month.⁴³ With this revision to the threshold, a much larger group of beneficiaries became eligible for assistance than for the pre-pandemic flagship cash transfer program, *Bantuan Sara Hidup* (BSH), which covered households earning up to RM 5,000 (US\$ 1,179) per month. The delivery of benefits was rapid, with beneficiaries of BSH being automatically enrolled for BPN. Individuals who were identified as being eligible for benefits under the new income threshold on the basis of their tax records were also automatically enrolled, while the manual enrolment of new beneficiaries could also be completed relatively easily through the Inland Revenue Board's (*Lembaga Hasil Dalam Negeri*, LHDN) website. The first payment of the BPN benefits was made 10 days after its announcement.

The government also implemented measures to protect informally employed workers, particularly gig workers. The protection of gig workers (defined as workers employed through digital labor platforms, without standard employment conditions and protection, often working for multiple clients) was incentivized through the *PenjanaGig* program introduced in June 2020, which provides a 70 percent matching contribution from the government to

incentivize registration with SOCSO's Self-Employment Social Security Scheme (SESSS).⁴⁴ The uptake as of December 2020 was poor, reaching only 2.06 percent of the target.⁴⁵ Subsequently, the *SPS Lindung* program was introduced as an upgrade to the *PenjanaGig* program to protect delivery riders and other specific groups of informally employed workers, with a 100 percent of the contribution for one year being subsidized by the government.⁴⁶ While the uptake for this program fared better, particularly since Grab and FoodPanda registered all of their delivery partners⁴⁷, it remains to be seen whether registered workers will continue making contributions once the subsidy is phased out. To determine the effectiveness of these programs in protecting gig workers, they should be studied more carefully to assess their impact, and subsequently to provide inputs to inform any necessary changes to design and outreach. One of the stated reasons for the specific focus on gig workers, particularly delivery riders, is that they have played a vital role during the pandemic, often referred to as 'front liners.' They are also at high risk of contracting the virus and sustaining injury in the course of their employment, with a sizeable number of accidents occurring at the beginning of the pandemic⁴⁸, thus making their protection especially pertinent. Another possible reason for the focus on gig workers is because a high proportion of displaced workers may have resorted to gig work to earn an income during the crisis.⁴⁹

Despite the government's introduction of these household-level financial support interventions, a significant share of those who are eligible have not received any assistance. Findings from both rounds of the HiFy survey show that about a third of lower-

⁴² At exchange rate US\$1 = RM 4.24.

⁴³ An additional cash transfer program, *Bantuan Khas COVID* (BKC), which is being implemented between September and December 2021 was extended to an even larger group of beneficiaries, that is, households earning up to RM 9,000 per month and individuals earning up to RM 5,000 per month.

⁴⁴ The *PenjanaGig* program specifically targets workers who are actively working on digital labor platforms registered with the Malaysia Digital Economy Corporation (MDEC) or other government agencies.

⁴⁵ MalaysiaKini. (December 9, 2020). Accessed through <https://www.malaysiakini.com/news/554530>

⁴⁶ The other groups of workers include volunteers from the military, police, public defense and maritime sectors, mosque workers (*guru takmir*, *noja*, *siak*, *imam*, *bilal*, and *merbut*), and public sector workers employed under contracts for service.

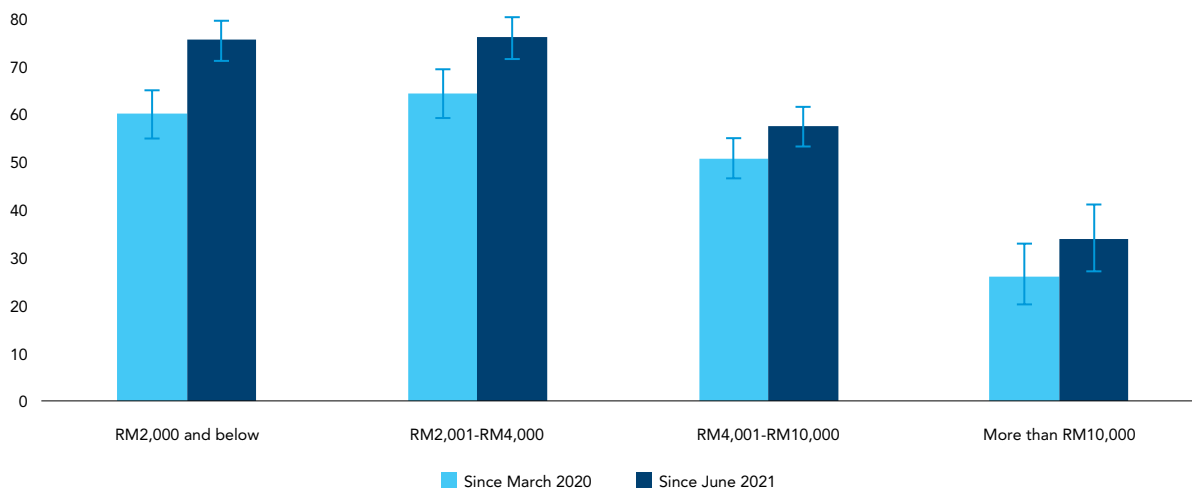
⁴⁷ New Straits Times. (July 16, 2021). Accessed through <https://www.nst.com.my/news/nation/2021/07/709033/grab-foodpanda-delivery-partners-now-covered-socso>.

⁴⁸ New Straits Times (June 24, 2021). Accessed through <https://www.nst.com.my/news/nation/2021/06/701880/socso-over-150-accidents-involving-delivery-riders-march-june-last-year>.

⁴⁹ There has also been an effort to upskill workers to become gig workers through the Global Online Workforce (GLOW) *Penjana* program, with RM 25 million allocated to MDEC's existing GLOW training program.

FIGURE 52
In recent months, higher shares of households have received cash transfers from the government

Received government cash transfers, Percentage of households within each income group



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

income households (income RM 4,000 and below) had not received any benefits from these assistance programs during the crisis.⁵⁰ This level of exclusion error is higher than that estimated by using administrative and traditional survey data, and hence provides an indicative figure.⁵¹ Government assistance programs introduced in response to the pandemic include those that provide direct cash transfers, wage subsidies, EPF withdrawals, micro-credit financing schemes, tax relief, and loan moratoriums through the stimulus packages. Focusing on cash transfers only, more households reported receiving transfers since June 2021 than prior to that point (see Figure 52). This reflects the increased provision of support to low- and middle-income groups, with the additional *Bantuan Prihatin Rakyat* (BPR) and *Bantuan Khas COVID-19* (BKC) programs implemented between June and September 2021 under the *PEMERKASA+* and *PEMULIH* packages.⁵²

Nonetheless, the current social assistance system shows only limited effectiveness in providing sufficient support to households to manage economic shocks and risks, particularly for those not covered by social insurance. There is exclusion

error in the targeting of government assistance at a time of heightened vulnerability, when such support may be especially important for these households. This may be due to the initial reliance on the BSH beneficiary database and tax records to target the cash transfer program, BPN. It is already known that BSH suffers from issues of exclusion, and the usage of tax records only incrementally covers those who are formally employed and who have on average higher levels of income.⁵³ In a time of restricted access and mobility, there may also be limitations in the implementing agencies' abilities to conduct outreach and intake among the poorest households. This exclusion may further exacerbate the vulnerabilities experienced by informally employed workers, who account for a large proportion of low-income households.

⁵⁰ Referring to the period from the onset of the pandemic until early November 2021.

⁵¹ One possible reason for the difference between the findings from the HiFy survey and the administrative and traditional survey data could be because of the way the question is asked in the HiFy (given the space and time constraints), which only asks whether households receive benefits from certain programs, without detailing how many recipients in the household received benefits from the same programs.

⁵² *PEMERKASA+* stands for "*Program Strategik Memperkasa Rakyat dan Ekonomi Tambahan*" and *PEMULIH* package stands for "*Pakej Perlindungan Rakyat dan Pemulihan Ekonomi*". These stimulus packages were introduced between May and June 2021 and adds up to RM 190 billion worth of allocation to continue the public welfare agenda and support the country's recovery from the crisis.

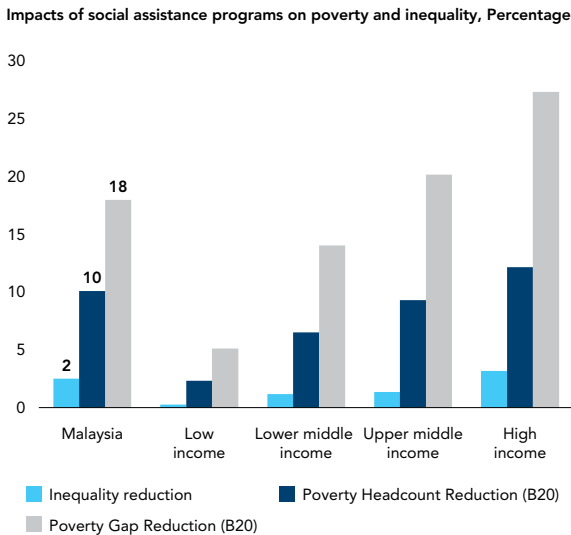
⁵³ World Bank (2020d) analyzes the coverage of the different social assistance programs.

The more severe impact faced by the poor and informally employed workers underscores gaps in the social protection system

Even prior to the COVID-19 pandemic, Malaysia’s social assistance system did not provide a guaranteed minimum level of protection to all those in need. In its comprehensive analysis of Malaysia’s social protection system, using pre-pandemic data, the World Bank highlights shortcomings of the system in protecting the most vulnerable.⁵⁴ The report found that due to low benefit levels or adequacy, Malaysia’s social assistance programs have had only modest impacts on poverty and inequality (see Figure 53). While these impacts are in line with the average for upper-middle income countries, it lags that of aspirational peers in high income countries. Furthermore, the delivery of social assistance is marred by a lack of coordination, with fragmented institutional arrangements and no standardized targeting mechanism for social assistance programs, affecting the efficiency and effectiveness of the system in reaching the most vulnerable households. In addition, a substantial share of Malaysia’s labor force

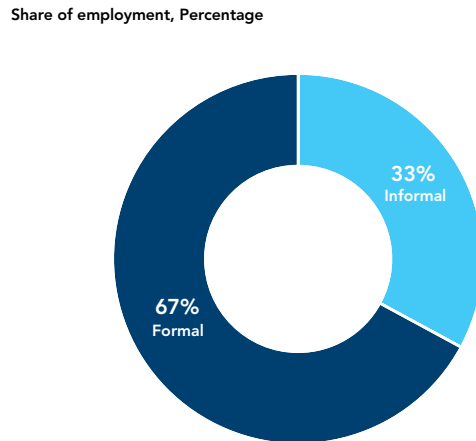
does not have any retirement savings in the form of EPF, or employment disability and injury insurance by SOCSO (see Figure 54). A large proportion of those who are covered by the EPF also have low balances. Almost half of EPF members have balances of RM 10,000 or less, while almost 30 percent of EPF members have balances of RM 1,000 or less.⁵⁵ All these factors — low adequacy, fragmentation in program intake and delivery, non-standardized targeting, and the limited reach of social insurance, especially among the poor — have limited the government’s ability to extend assistance to the poor and vulnerable, particularly those in informal employment, during the pandemic. The exclusion among the poor and vulnerable in the receipt of COVID-19 assistance is therefore partly a consequence of these long-standing weaknesses in Malaysia’s social protection system, underlining the need for Malaysia to develop a more robust and shock-responsive social safety net.

FIGURE 53
Even prior to the pandemic, social assistance in Malaysia only had modest impacts on poverty and inequality compared to its high income aspirational peers...



Source: World Bank staff calculations using Household Income and Basic Amenities Survey 2016 (DOSM).
Note: Public sector workers are excluded from this calculation.

FIGURE 54
...and about one third of private sector workers were covered by any form of social insurance



Source: World Bank staff calculations using Household Income and Basic Amenities Survey 2016 (DOSM).
Note: Public sector workers are excluded from this calculation.

⁵⁴ World Bank. 2020d. Malaysia Economic Monitor, June 2020, Surviving the Storm.

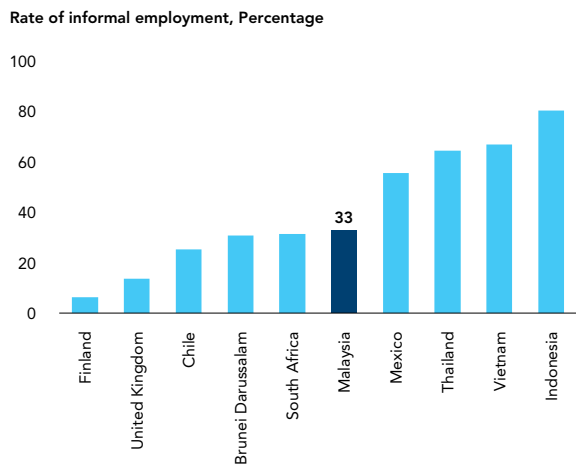
⁵⁵ There has been a significant decline in EPF balances in 2020 and 2021, due to early withdrawals from EPF balances through the *i-Lestari*, *i-Sinar*, and *i-Citra* programs, which are part of the Government’s response to the COVID-19 pandemic (see Nuradzimmah Daim, 2021).

The substantial share of informally employed workers in the economy, with higher rates of informal employment in the lower-income groups, underscores the urgent need to address the gaps in Malaysia's social protection system. Compared with high-income countries such as Finland and the United Kingdom, Malaysia's rate of informal employment (33 percent) is relatively high, although it comparable to that of some other upper middle-income countries, and lower than its Southeast Asian peers (see Figure 55). However, more worryingly, this rate is relatively high among households with the lowest levels of

income. The share of informally employed workers amongst households in the lowest income decile is 52 percent, compared to 38 percent for households from the second-lowest income decile and to 18 percent for households from the highest income decile (see Figure 56). Furthermore, while a majority of informally employed workers are own-account workers (50 percent of total), employees constitute the second-largest share, at 38 percent of total informally employed workers (see Figure 57). About a fifth of all employees are not covered by any form of social insurance (see Figure 58).

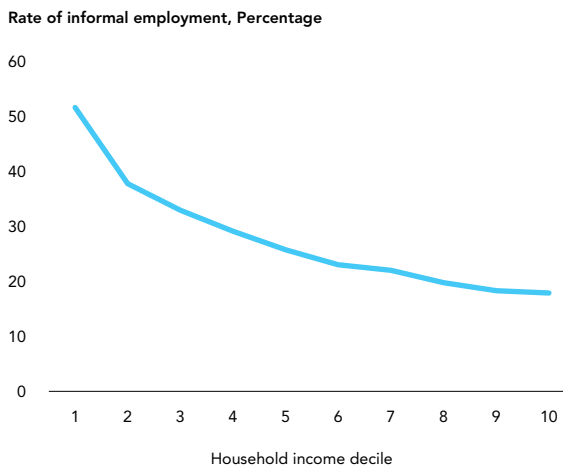


FIGURE 55
The rate of informal employment in Malaysia is comparable to that of its upper-middle income peers, and lower than its Southeast Asian neighbors...



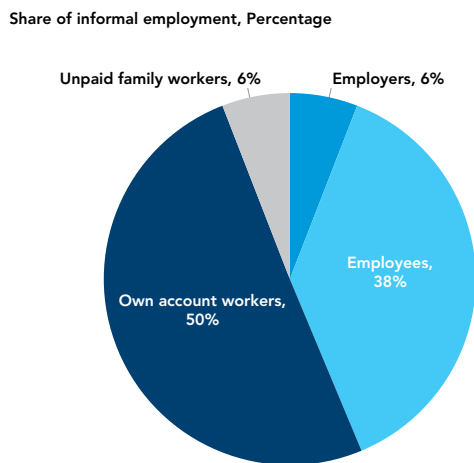
Source: ILOSTAT based on latest available data, ILO (2018) and World Bank staff calculations using Household Income and Basic Amenities Survey 2016 (DOSM).

FIGURE 56
...but the poorest Malaysian households are more likely to be employed under precarious conditions



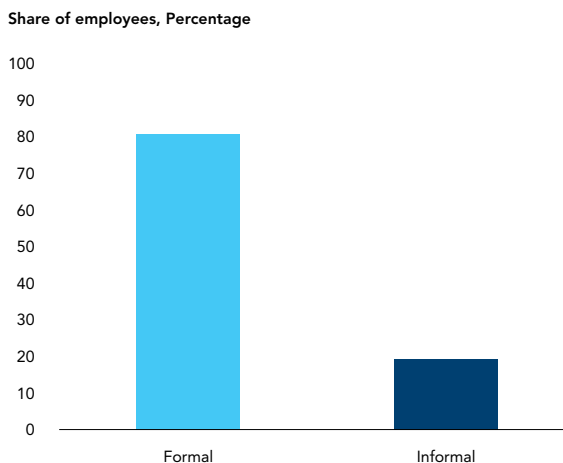
Source: World Bank staff calculations using Household Income and Basic Amenities Survey 2016 (DOSM).

FIGURE 57
While own account workers make up the majority of informally employed workers, employees also make up a substantial share of informal employment...



Source: World Bank staff calculations using Household Income and Basic Amenities Survey 2016 (DOSM).
Note: Public sector workers are excluded from this calculation.

FIGURE 58
...with 19 percent of employees being informally employed



Source: World Bank staff calculations using Household Income and Basic Amenities Survey 2016 (DOSM).
Note: Public sector workers are excluded from this calculation.

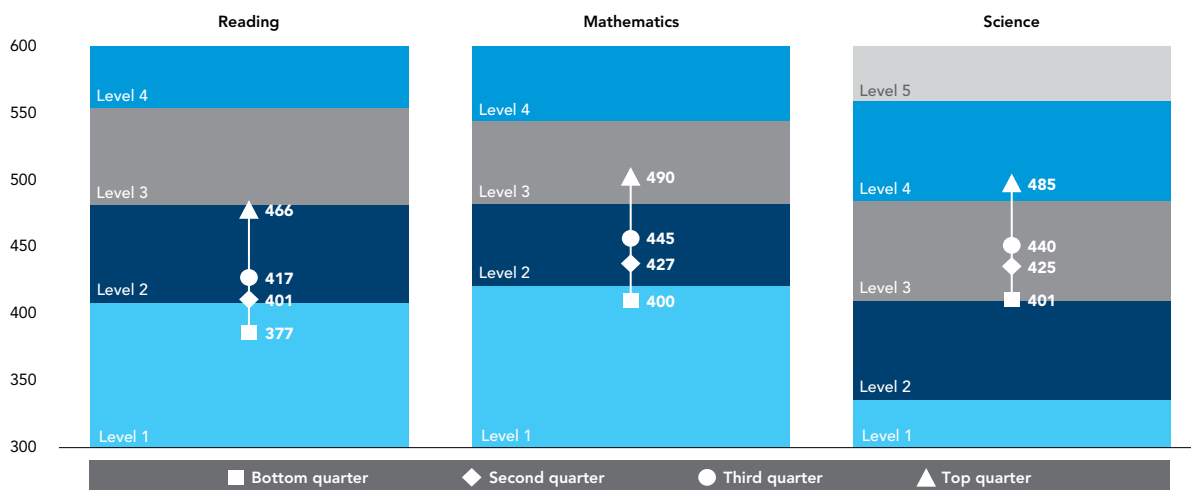
The pandemic has widened existing learning gaps between children in Malaysia

Even prior to the pandemic, issues related to disparities in outcomes in the Malaysian education system were already present. According to the World Bank's Human Capital Index for 2020, although the expected years of schooling in Malaysia were 12.5 years, when adjusted for the quality of learning, they receive only 8.9 learning-adjusted years of schooling (LAYS).⁵⁶ This suggests that prior to the pandemic, Malaysian students only received the equivalent of 8.9 years of schooling in real terms, despite attending school for 12.5 years, reflecting barriers to learning and quality issues (World Bank, 2020c).⁵⁷ In contrast, students who spend 13.9 years in the educational system in Singapore can, on average, expect high-quality learning outcomes, at 12.8 LAYS.

There were significant learning gaps between students from socioeconomically advantaged and disadvantaged households in Malaysia, with these gaps widening over time. According to PISA 2009, socioeconomically advantaged⁵⁸ students in Malaysia outperformed their disadvantaged peers in reading by 53 points. By 2018, this gap had widened to 89 points, meaning that advantaged students' performance improved while disadvantaged students' performance declined over this period (see Figure 59). A similar trend is observed in the fields of mathematics and science (OECD, 2019a). In fact, those who score in the top 10 percent for mathematics belong almost exclusively to relatively wealthier families, while four out of every five top scoring students in reading and science come from

FIGURE 59
Significant learning gaps exist between students from socioeconomically advantaged and disadvantaged households in Malaysia even before the pandemic

Malaysia's mean performance in reading in PISA 2018 by quarter of socioeconomic status, Proficiency levels and score point



Source: OECD (2019b).

Notes: Advantaged students in Malaysia scored 466 points in reading on average, putting them on Level 2 proficiency, compared to disadvantaged students on Level 1a proficiency with a mean score of 377 points. This 89-point gap between students from the top and bottom quarter of socioeconomic status in the country amounts to more than 1 proficiency level difference.

⁵⁶ https://databank.worldbank.org/data/download/hci/HCI_2pager_MYS.pdf?cid=GGH_e_hcpexternal_en_ext

⁵⁷ Unlike the quantity-based standard education metric of human capital - the average number of years of schooling, Learning-Adjusted Years of Schooling (LAYS) combines both quantity and quality of schooling into a single measure, attempting to integrate access and learning outcomes to a metric of progress (Filmer et al. 2018).

⁵⁸ For PISA, students at the bottom quarter of the PISA index of economic, social and cultural status within the country are classified as disadvantaged and students at the top quarter are classified as advantaged. For TIMSS, schools where more than 25 percent of the student body comes from economically affluent homes and not more than 25 percent from economically disadvantaged homes are categorized as 'more affluent' and vice versa.



relatively prosperous families. Similarly, in TIMSS 2019, Malaysian students from schools where most students came from high socioeconomic backgrounds performed better on average in mathematics than students from schools with low socioeconomic backgrounds by 101 score points, and in science by 96 score points. The performance gap associated with socioeconomic status is also larger in Malaysia than other TIMSS participating countries on average, with the average gap standing at 52 score points for mathematics and 50 score points for science (Ministry of Education Malaysia, 2020).

The period for which schools were closed in Malaysia due to the pandemic was among the highest in the region, potentially exacerbating pre-existing learning issues and gaps. As of October 2021, Malaysia's pandemic response had resulted in 42 weeks of school closures, one of the longest periods in the region and amongst its peers (see Figure 60). This, together with the economic difficulties caused by the pandemic, has heightened the risks of learning loss and drop-out among students, particularly among those from disadvantaged socioeconomic households. While the government introduced remedial measures, such as remote learning, this is often relatively ineffective for children in low-resource settings who do not have access to the required learning tools, including

computers and smart phones (UNESCO, 2021).

These school closures could result in additional learning losses for Malaysian students. A simulation study to assess the impact of pandemic-related school closures estimates up to 1.3 years of additional learning losses for Malaysian students (see Figure 61) (Cloutier et al. 2021). The study analyzed different scenarios (*intermediate and pessimistic*) based on Malaysia's estimated school closure periods and the effectiveness of mitigation measures: (i) the *intermediate scenario* assumes that schools are closed for 40 weeks from January 2020 to February 2022 and that the mitigation measures have an intermediate level of effectiveness; and (ii) the *pessimistic scenario* assumes schools are closed for 43 weeks and that the mitigation measures have low levels of effectiveness.

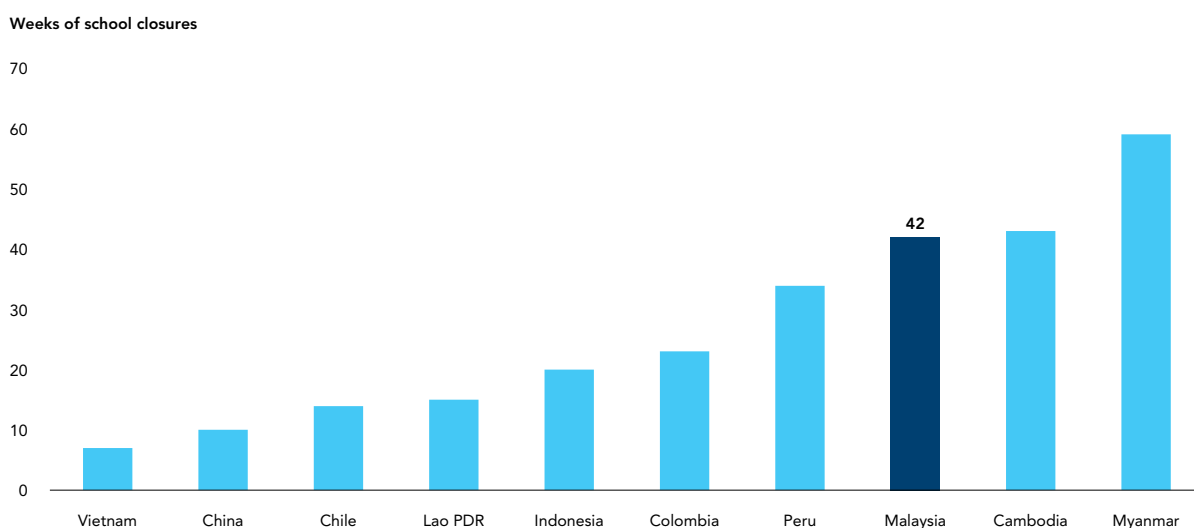
The impact of the pandemic on LAYS in Malaysia could also result in future earning losses. Under the intermediate and pessimistic scenarios, the average annual earning losses per student are estimated to be US\$ 1,922 and US\$ 2,320, respectively, with the average earnings at US\$ 21,782 prior to the pandemic (see Figure 62). Under the intermediate scenario, the present value loss in the lifetime earnings of a student is expected to stand at around US\$ 35,070, considerably

higher than the average loss in the EAP region (US\$ 17,620).

While there are multiple long-term drivers, Malaysia’s educational gap is likely to be exacerbated by the pandemic-related school closures and the use of online learning, increasing existing inequalities. Forthcoming research shows that many other high-income countries, including Switzerland, Germany, the Netherlands and

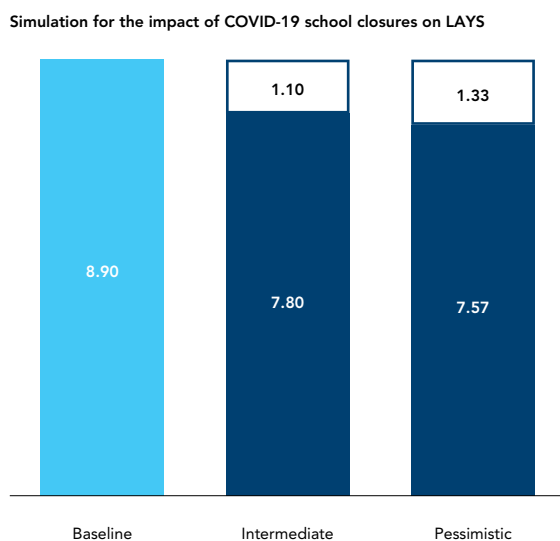
the United States, have experienced similar trends related to student learning loss as a result of the pandemic, with the impacts unequally distributed among students from different income and academic achievement groups (Yarrow et al., forthcoming). The recent HiFy survey also indicates the magnitude of the learning challenges faced by children from low-income households during the pandemic. These challenges are discussed in detail in the next section.

FIGURE 60
Malaysia saw one of the highest periods of school closure in the region and amongst its peers



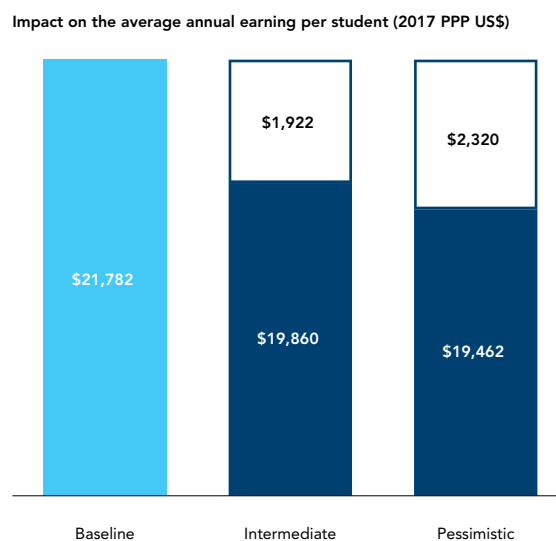
Source: UNESCO Institute for Statistics

FIGURE 61
LAYS simulations estimate additional learning losses for Malaysian students...



Source: Cloutier et al. (2021)

FIGURE 62
...which could translate into average annual earning losses



Source: Cloutier et al. (2021)



Children from low-income households face different realities pre- and during COVID-19, casting a clearer light on issues in the education system

Several studies show that parental educational levels and occupation are correlated with students' development of cognitive and socioemotional skills.

Based on PISA 2018 data, a recent study found that both family wealth and the provision of emotional support are positively correlated with students' development of cognitive and socioemotional skills, although the contribution of family wealth is greater for cognitive skills (World Bank, forthcoming).⁵⁹ Students with college-educated parents also have greater advantages over those with less educated parents in terms of cognitive skills, with this correlation apparently mediated almost entirely through the family's wealth. Moreover, the analysis found that students whose parents held white-collar occupations score better in cognitive tests, even after controlling for the contribution of their school. Around four out of every five students that score in the top 10 percent in mathematics, reading and science have at least one white-collar parent. Similarly, three out of every five students in the top decile of socioemotional

skills have at least one white-collar parent.

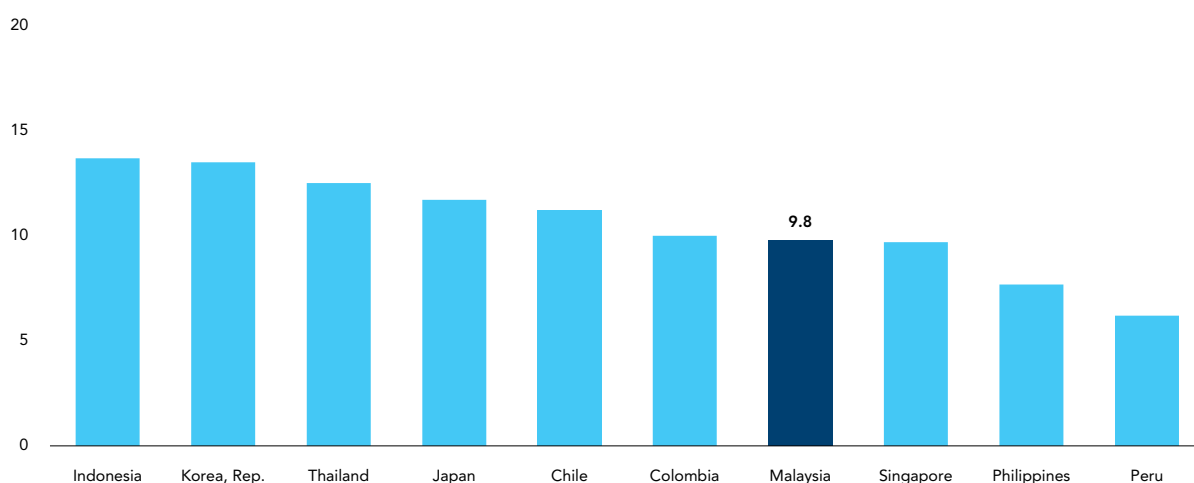
In addition, disadvantaged students in Malaysia have different opportunities in school than do their more advantaged peers.

Their teachers are more likely to be absent and unable to meet their learning needs. They have a significantly weaker sense of belonging to their schools, and this is associated with weaker performance in reading in particular⁶⁰ (OECD, 2019c). Nonetheless, some disadvantaged students can excel academically, despite the odds stacked against them. The PISA 2018 data showed that 9.8 percent of disadvantaged students in Malaysia were academically resilient despite their socioeconomic circumstances, a somewhat lower proportion than the OECD average of 11.3 percent (see Figure 63). Their academic resilience was positively related to parental support, school disciplinary climate, and having a growth mindset (OECD, 2019b). Significant efforts to develop conducive environments should be made to

FIGURE 63

Disadvantaged students can be academically resilient despite their socioeconomic circumstances

Disadvantaged students who scored in the top quarter of reading performance in their own country, Percentage



Source: OECD (2019b).

⁵⁹ On the other hand, the opposite is true for the development of socioemotional skills, where parental emotional support plays a much more significant role than family wealth (World Bank, forthcoming).

⁶⁰ Disadvantaged students have a lower sense of belonging at school index (-0.25) than advantaged students (-0.09). Every unit increase in the index of sense of belonging at school was associated with an increase of more than 20 score points in reading performance among students in Malaysia, a much stronger association across OECD countries at 4 score points.

ensure equal opportunities for these disadvantaged students to prevent the further widening of learning gaps and hence the entrenchment of socioeconomic inequality in the long run.

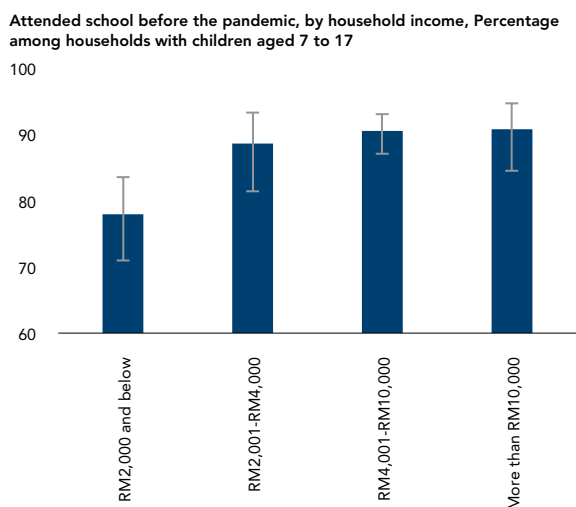
During the school closure period, children from low-income households were less likely to continue with at-home learning activities. The majority of Malaysian children who attended school before the pandemic have continued at-home learning activities during the periods when the schools were closed, although the proportion is lower among children from low-income households. The World Bank’s HiFy survey found that among all of the children in the surveyed households, 94 percent continued to engage in at-home learning activities between October and November 2021. However, low-income households reported a lower rate of school attendance even in the pre-pandemic period (see Figure 64), with children from these households also less likely to continue learning from home during the pandemic (see Figure 65).

While most Malaysian children have had access to online classes or mobile learning applications, 23 percent of children from lower-income households in Malaysia have been unable to participate or have participated only to a limited degree. Thus, the pandemic has potentially exacerbated the existing

gaps in education due to uneven access to learning infrastructure, particularly to online learning. The HiFy survey found that although there had been an increase in online learning participation in the past few months, children from the lower-income households still remain slightly less likely to engage in online learning activities than those in wealthier households (see Figure 66). With extended school closures and the phased reopening of schools, it is likely that students from vulnerable households will experience diminished learning opportunities, with disparities between advantaged and disadvantaged students widening further. Moreover, economic pressures may exacerbate this negative impact on learning, with the financial difficulties confronting vulnerable households potentially leading to an increase in the student dropout rate.

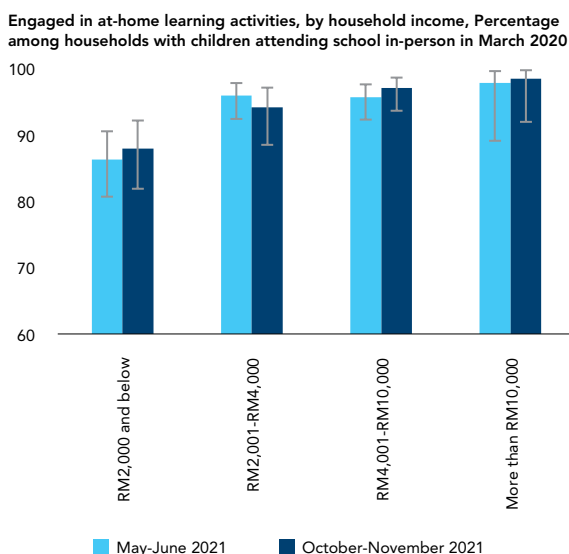
The constraints faced by children engaged in at-home learning included lack of stable internet connections and lack of access to the necessary devices, including computers and smartphones. Children employed various modes to facilitate their learning activities from home (see Figure 67), with completing assignments provided by the teacher, using mobile learning apps, and having lessons with teacher or tutor being the most common activities, regardless of the socioeconomic status of the students involved. However, a small proportion of children was not able to

FIGURE 64
Before the pandemic, children from low-income households reported lower attendance in school...



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 65
...and were also less likely to continue learning from home during the pandemic

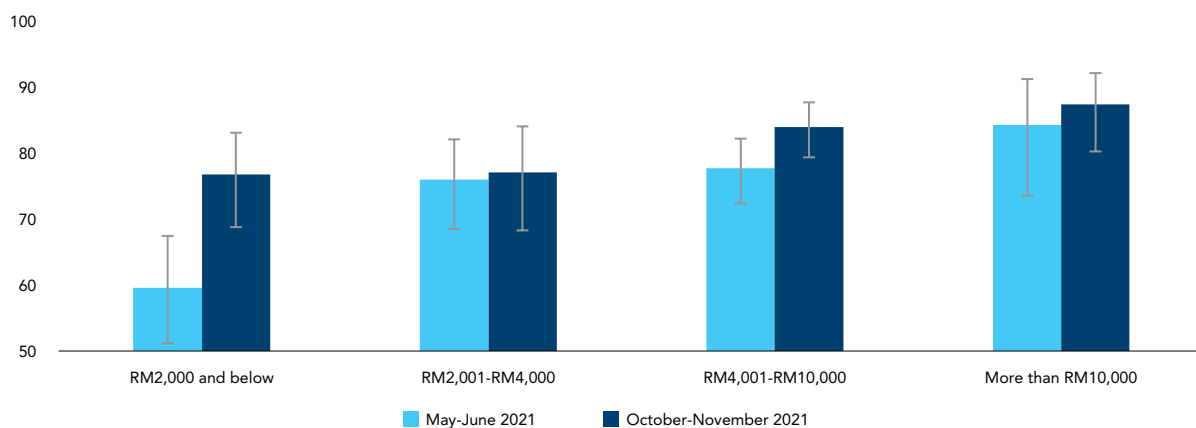


Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).



FIGURE 66
Children from low-income households remain less likely to engage in online learning activities

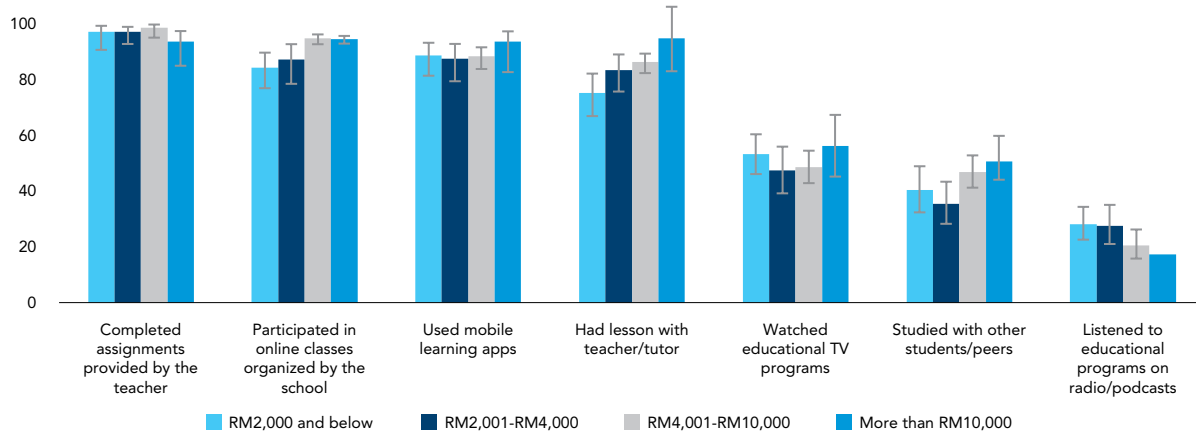
Engaged in online classes or used mobile learning apps, by household income, Percentage of households with children engaged in at-home learning



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

FIGURE 67
Children used various approaches for their home-learning activities

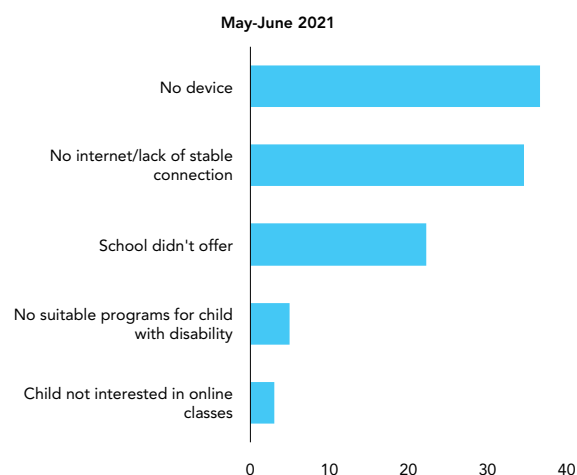
Participation in at-home learning activities by household income in October–November 2021, Percentage of households with children engaged in at-home learning



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 2 forthcoming).

FIGURE 68
During the pandemic, no devices and unstable connection were the main reasons for not engaging in home-learning activities...

Reasons children are not learning in past 30 days, Percentage of households with children not engaged in at-home learning



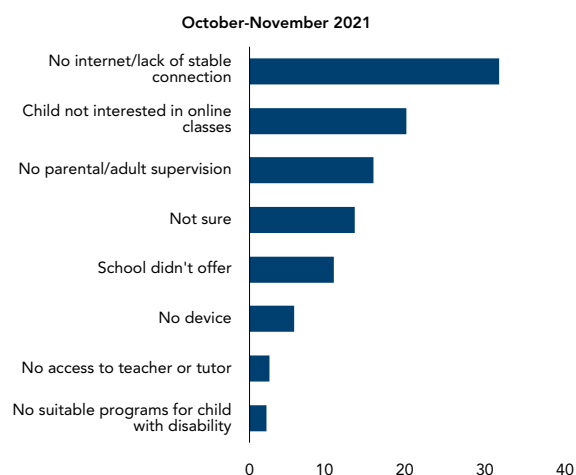
Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

use any of these modes. Findings from the first round of the HiFY survey showed that amongst households in which children did not participate in at-home learning activities, constraints related to access to internet connections and devices were the most frequently reported reasons for children’s failure to engage in at-home learning at the height of the pandemic during May-June 2021 (see Figure 68).

More recently, findings from the second round of the HiFY show a decline in the proportion of households with children reporting constraints related to access to devices, although a greater proportion reported constraints related to their children lacking interest in online classes, and to lack of parental or adult supervision as reasons for their children’s non-participation in at-home learning activities (see Figure 69). The increased access to devices is consistent with a number of initiatives implemented by the government, such as CERDIK, which was intended to address constraints related to lack of devices and internet access among disadvantaged households. Under the

FIGURE 69
...but more recently, more children did not participate due to lack of interest and adult supervision

Reasons children are not learning in past 30 days, Percentage of households with children not engaged in at-home learning



Source: World Bank. 2021c. High-Frequency Phone Survey on COVID-19 Impact & Recovery Among Malaysian Households (Round 1 and Round 2 forthcoming).

initiative, government-linked companies funded and distributed laptops, tablets and internet data packages to students from the bottom 40 percent (B40) of the household income group. As of April 2021, 13,000 devices had been distributed. The initiative picked up as the pandemic intensified in the following months and, by the end of October 2021, 150,000 devices had been distributed to students in need, reaching approximately 5 percent of B40 households.⁶¹ In partnership with major telecommunication companies, the Malaysian Communications and Multimedia Commission has also provided free internet access since April 2020 to enable students to access educational sites and apps.⁶² The phased reopening of schools since October 2021, following the winding down of the nationwide lockdown, further reduced constraints associated with access to devices and internet connections, especially in households with multiple school-going children.

⁶¹ Yayasan Hasanah. 2021. Status Agihan. Retrieved from <https://www.cerdik.org/ms/deployment-tracker/> on July 27 and November 7, 2021.

⁶² Malaysian Communications and Multimedia Commission. 2021. Soalan-soalan Lazim (FAQ) 1GB Data Internet Percuma bagi Rakyat Malaysia.

The pandemic will potentially further contribute to socioeconomic inequalities, besides slowing future growth

While the impacts of the pandemic during the early stages were relatively widespread, its adverse consequences are expected to be more severe and longer among the poor and vulnerable. Findings from HiFy survey highlight that the pandemic hit and set back progress in many aspects of households' socio-economic condition. The survey confirms that the negative economic shock among households is often accompanied by a deterioration in other non-economic aspects. Despite gradual recovery in the economy, lower-income households have already started showing reduced resilience, given a higher share reporting employment shocks, income losses, and depleted savings throughout the pandemic. They are also more likely to adopt coping strategies that will lead to worse longer-term outcomes, for example reduced food consumption leading to undernutrition, sale of assets resulting in loss of productive future income, and more. Furthermore, while an increase of informally employed workers during the pandemic gives a positive sign of the shock-absorbing ability within the labor market, it implies potentially more precarious situation as these workers are likely to remain with limited or no social protection as they continue to be informally employed in the longer term. These factors suggest not only widening income and wealth inequalities among Malaysians, but also highlight the reduced resilience and capabilities among the poor and vulnerable to cope with any future shocks.

Learning losses that may have occurred as a result of the pandemic will potentially exacerbate socioeconomic inequality in the longer term. One of the most damaging effects of the COVID-19 pandemic may only become visible in the longer term, with these effects resulting from the impact of the widespread and unprecedented disruption to learning due to the prolonged school closures. Although the net impact of school closures will depend on the effectiveness of remote learning, generally, closures are likely to result in a slowdown and loss of learning and to the increased likelihood of school dropouts, particularly among the most disadvantaged children and girls.⁶³ At the same time, there is no doubt regarding the importance of educational attainment in obtaining good and secure

employment in the future. According to the International Labour Organization (ILO), people who have completed secondary and tertiary education are less likely to engage in informal employment than those with only primary education or with no formal education.⁶⁴ As previously discussed, informally employed workers are among the most severely affected by the crisis. Therefore, urgent action is needed to ensure continued access to quality education, as efforts to remedy learning losses may mitigate the widening of socioeconomic inequality that may occur as a result of this loss in the long run.

Malaysia's dream to become a high-income nation by 2028 may not be realized under these circumstances, unless appropriate policies are put in place. As Malaysia is on the verge of transitioning from an upper-middle-income to high-income economy (World Bank, 2021d), the prolonged impact from COVID-19's "triple shock"⁶⁵ may constrain economic growth in the future, mainly due to slow private consumption growth and modest recovery to wage growth in the labor market. Malaysia has also been growing slower than many other countries that achieved high-income status recently, with lower share of high-skilled employment and higher level of inequality. As discussed in detail in Part 1, the upside risks to the growth outlook depends largely on effective management of the pandemic, with minimal disruptions to domestic socioeconomic activities. To ensure Malaysia fulfills its growth potential within the next five years, it is a very critical, and opportune, time for the country to address pre-existing fault lines as well as newly emerged scars from the crisis. Given the rapidly evolving situation, policy makers continue to need timely information on the dynamics of households' welfare during the pandemic, as well as on effectiveness of the government's substantial relief and stimulus measures. Such information is key to facilitate greater evidence-based decision-making for an inclusive and sustainable recovery for Malaysia. The following sections will highlight a range of policy recommendations to achieve the intended recovery from the crisis, particularly through enhancing both the social protection and education systems in Malaysia.

⁶³ Azevedo et al. 2020. EAP country tool for simulating the potential impacts of COVID-19 school closures on schooling and learning outcomes.

⁶⁴ ILO. 2018. Women and men in the informal economy: a statistical brief.

⁶⁵ The triple shock refers to the (1) direct health impact of the Coronavirus, (2) economic impact of movement restrictions within Malaysia, and (3) growth impact of a global recession (see World Bank, 2021d).

BOX 5

Better Child Care to Increase the Participation of Poorer Urban Families in Labor Markets



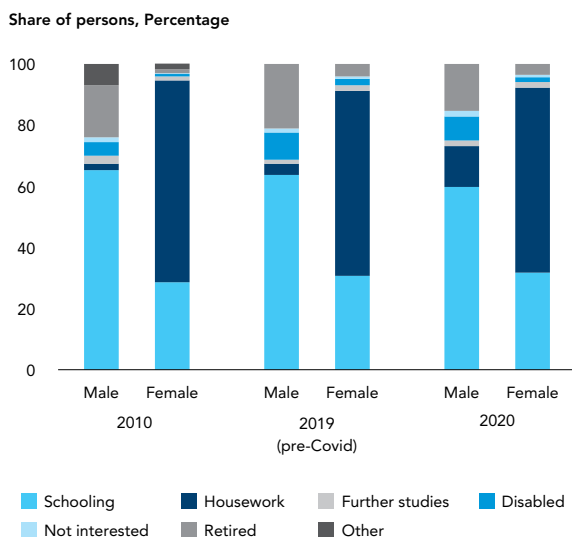
Women in Malaysia, particularly those from lower-income urban families, face stark barriers on their participation in the labor force participation, largely due to their social obligations to serve as home makers and care providers. Focus group discussions, conducted for the recent World Bank (2019b) report, *Breaking Barriers: Toward Better Economic Opportunities for Women in Malaysia* show that women from lower-income families, including those living in poor urban areas such as *Projek Perumahan Rakyat* (PPR) public housing developments, often struggle to participate in the labor market because of the lack of accessible, affordable and quality child-care.⁶⁶ Women see their primary role as being the family caregiver, responsible for the growth and socialization of their children. From this perspective, the need to safe, quality child-care is directly related to the self-identity as a good mother and wife. This leaves relatively little room for women to take up formal sector jobs unless the right supporting environment is

provided. Those in this group that do participate in the labor market very often work part-time in informal jobs; are self-employed; or have their own micro-businesses.

Interestingly in 2020, 13 percent of men who were out of the labor force reported housework as the main reason, which is a substantial growth from the figure of 4 percent recorded in 2019 (see Figure 70). For women, housework remains the principal reason cited for not participating in the labor force, at 61 percent in 2020 (see Figure 71). The increase in the proportion of men citing housework as a reason for not participating in the labor force coincided with the advent of the pandemic, with lockdowns throughout the country, school closures, businesses affected and both women and men having to work largely from home. It will be important to analyze the data for 2021 to determine if the factor has moderated or remains the same over time.

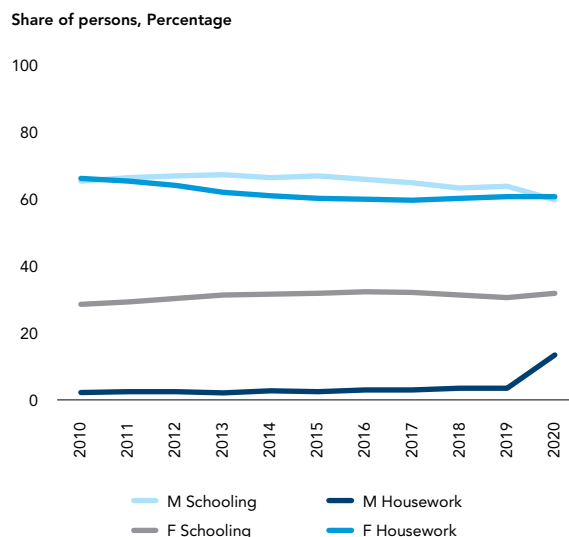
⁶⁶ World Bank. 2019b. *Breaking Barriers: Toward Better Economic Opportunities for Women*, September 2019.

FIGURE 70
In 2020, more men reported housework as the main reason for being out of the labor force



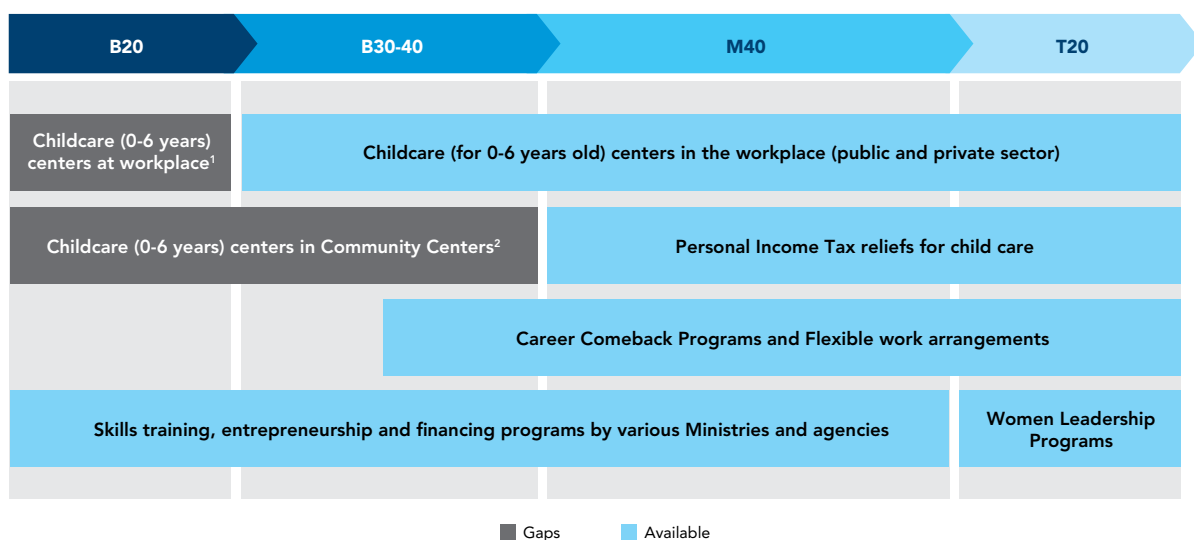
Source: Labor Force Survey, Department of Statistics Malaysia

FIGURE 71
Housework remains the number one reason cited for women to not participate in the labor force



Source: Labor Force Survey, Department of Statistics Malaysia

FIGURE 72
Mapping of Government incentives, policies and programs for women and childcare across different household incomes, under Budget 2011–2022



Source: World Bank staff interpretation.

Notes:

1. Women from B40 may commute to work on public transport or on motorbikes, hence it is not an ideal situation to bring children to work
2. In Budget 2021, it is noted that there was an allocation of RM 170 million for early childhood education programs (ages 0 to 6 years) for the Community Development Department or KEMAS. In addition, in Budget 2021, there was a provision of RM20 million to establish Community Centers as transit centers for children to attend after school for urban B40 working parents. However, similar provision for after-school care did not continue in Budget 2022.
3. Job types in Career Comeback Programs may not be applicable to women from the B40.

While policymakers have increasingly discussed provision of childcare incentives, with a number of such incentives included in Budget 2022, current initiatives largely fail to meet the childcare needs of the B40, especially the urban poor (see Figure 72).

Government initiatives continue to focus on the care of children at the ages of 0 to 6 years, with measures to provide income tax reliefs for early childhood development and kindergarten fees; to encourage the establishment of childcare centers at workplaces; to incentivize businesses to offer flexible forms of work; and to amend guidelines to facilitate childcare facilities to operate above the first floor of office buildings. These are unquestionably important measures. However, most of these measures disproportionately benefit women from M40 or T20 families, with relatively little relevance for women from B40 families. Parents from B40 families may commute to work on public transport or on motorbikes, making it difficult for them to bring children to childcare centers at the workplace, or they may be working in informal jobs. In either case, they are unlikely to pay personal income tax and therefore will not benefit from tax relief measures.

In a tight fiscal environment, it is crucial to prioritize the allocation of public resources to address the most pressing constraints on women's participation in the labor force, including alleviating the burden of housework for the B20 urban families.

Providing care and support infrastructure for children should be contextualized to meet the varying needs of different welfare groups to ensure the effective, well-targeted support for families.

It is also necessary to expand the age bracket for childcare from 0 to 17 years, rather than the current bracket of 0 to 6 years, with the provision of after-school care. Feedback from the focus group discussions with urban poor families shows that there is a perception of a lack of support for school-going children.⁶⁷ Participants expressed the opinion that the social environment in PPRs does not encourage the development of teenagers, with a lack of facilities for learning and playing. The impact of the pandemic has exacerbated the impact on children due to the closure of schools and the shift to online learning. Children from

B40 urban families may live in small, confined spaces, resulting in more acute learning losses than among those in more conducive circumstances, particularly when this is compounded with a lack of adequate access to learning devices or internet connectivity.

Providing care and support infrastructure for children should be contextualized to meet the varying needs of different welfare groups to ensure the effective, well-targeted support for families

Multiple modalities could be deployed to provide childcare, possibly involving enhancements to existing public facilities such as schools, libraries, and community centers. For example, tax incentives could be introduced to encourage public-private-community collaboration, in line with employers' environmental, social and corporate governance agenda for their employees and for wider community stakeholders. An example of this approach can be found in Singapore, where, in line with the country's changing demographics, community centers and clubs have evolved to become multi-generational facilities for recreation, sports, library, after-school studies, and healthy aging activities. These centers are easily accessible, with facilities available at minimal costs. There are 370 community study centers throughout Singapore, with many of them managed by residents, retirees and volunteers. In Malaysia, it would be possible to deliver localized models by leveraging on the existing public facilities offered by the Ministry of Education; the Ministry of Women, Family and Community Development; the Ministry of Housing and Local Government; and state and local governments.

⁶⁷ Findings from qualitative surveys focus group discussions conducted between January to March 2019, for the World Bank *Breaking Barriers Report: Towards Better Economic Empowerment for Women*

In the near-term, support for the poor and vulnerable, including informally employed workers and children, should remain in place

In the short term, policy measures should be geared towards maintaining financial support for the poor and vulnerable and establishing a more inclusive social insurance framework. Despite some promising signs of incipient economic recovery, the findings from the HiFy surveys indicate that low-income and vulnerable households, particularly informally employed workers, will continue to face hardships and deprivations resulting from the pandemic in the short run. To address this, the current social safety net system should continue to provide support to these groups, with intensified efforts to address the gaps in coverage of the vulnerable (see Figure 73). In 2020 and 2021, Malaysia spent approximately RM 60 billion (US\$ 14 billion) on social protection-related programs.⁶⁸ This combined spending over two years represents roughly 2.1 percent of the annual GDP in these two years, considerably higher than the proportion in the pre-pandemic, which stood at approximately 1.0 percent of GDP.⁶⁹

The pandemic-relief cash transfers currently provided to target groups should be continued at least for the first half of 2022. There is an ongoing need to provide support to a broad range of households, particularly low-income and vulnerable households, through cash assistance transfers at least until economic growth, job creation, and wage growth resume, after which this cash assistance can be focused more narrowly on the chronically poor. The government's various cash assistance programs throughout the crisis have provided important support to households, despite evidence of insufficient coverage and benefit adequacy. Given this, cash transfers beyond the flagship cash transfer program, *Bantuan Keluarga Malaysia* (BKM), may need to be continued for at least the next six months. These transfers would continue supporting households as economic growth gains momentum, and provide some form of safety net in the face of any further shocks, including one that could arise in the emergence of the Omicron variant of the COVID-19 virus.

FIGURE 73

Short-term measures should maintain financial support, achieve greater inclusivity, and facilitate children's learning

1 | Continue existing income relief measures

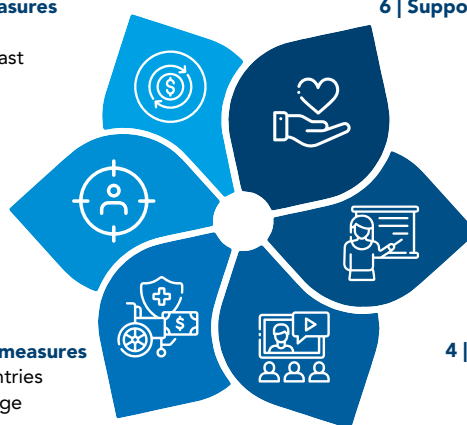
Current COVID-relief cash transfers to target groups should be continued at least for the next six months

2 | Introduce targeted wage subsidies

This includes youth and women, who traditionally suffer from difficulties in entering the labor market

3 | Pilot and evaluate social insurance measures

Learn from the experience of other countries to pilot initiatives to increase the coverage and adequacy of social insurance programs among informally employed workers



6 | Support teachers, schools and district offices

Strategies to help students with their socioemotional wellbeing and cope with learning difficulties

5 | Create remedial interventions

Enable disadvantaged students to receive more support through face-to-face instructions and hybrid learning modules

4 | Assess learning losses among children

Measure students' current level of knowledge and skills to make necessary adjustments to the existing curriculum and mitigate learning losses

Source: World Bank staff elaboration

⁶⁸ Roughly half of this was through cash assistance programs.

⁶⁹ World Bank. 2020d. Malaysia Economic Monitor, June 2020, Surviving the Storm.



Policymakers could also consider piloting additional targeted wage subsidies for workers who face structural barriers in the labor market, particularly youth and women, and to carefully monitor and evaluate existing wage subsidies.

As the economy and employment recover, resources could be directed to those who may continue to need support to obtain a job and who may not benefit from the existing wage subsidy program. This includes youth and women, and those from poor households, who traditionally suffer from difficulties in entering the labor market, and particularly the formal labor market. Wage subsidies can reduce the cost of hiring for firms and incentivize them to hire employees from disadvantaged groups, who will then have an opportunity to build their skills and thereby to improve their future employability. Wage subsidies can also potentially be channeled to jobs that can be filled by less educated workers. It would also be possible to target specific sectors, depending on the extent of their exposure to COVID-19 and their prospects for growth and revival. As part of COVID-19 recovery, wage subsidies focused on new hires have been adopted by several countries. For example, the Boosting Apprenticeship Commencements wage subsidy program in Australia is aimed towards employers who take on new apprentices or trainees, and would be eligible to receive a subsidy of 50 percent of the apprentices' gross wages until 31 March 2022. Furthermore, Singapore has introduced the Jobs Growth Incentive to encourage firms to expand local hiring, with greater financial incentives for hires from specific vulnerable groups such as older persons, persons with disabilities and ex-offenders. The *JaminKerja* initiative, as presented in Budget 2022, is a step towards this direction, but can be made to

be more focused to youth and women, instead of the broader group of inactive workers. The part of the initiative that is focused on women (specifically women who have been unemployed for more than 365 days, single mothers, and housewives) can actually be made more inclusive to cover more women. To ensure that they meet the intended recipients, wage subsidy programs need to be carefully designed, time-bound, well-targeted, and properly tested through piloting. The implementation of the *JaminKerja* initiative also presents an opportunity comparable to piloting for careful monitoring and evaluation, to provide insights for future implementation.⁷⁰

Measures to strengthen and extend the social insurance system to provide better coverage for informally employed workers could also be piloted and evaluated.

While recent collaborative efforts to extend the coverage of the EPF and SOCSO programs to informally employed workers through voluntary contributions are step in the right direction, they have had relatively low take-up rates. The SOCSO schemes for informally employed workers introduced during the crisis (i.e., *PenjanaGig* and *SPS Lindung*) come at a substantial fiscal cost and only provide protection for workers for one year. There is room to learn from the experiences of other countries to pilot initiatives to increase the coverage and adequacy of these social insurance programs. Potential initiatives could include automatic enrollments with the possibility of opting out (such as with the *KiwiSaver* scheme in New Zealand), testing various models for matching contributions (such as in China and South Korea), and providing targeted reminders to contribute, together with measures to socialize the benefits of contributing (such as in

⁷⁰ Almeida, Rita, Orr, Larry and Robalino, David. 2014. Wage subsidies in developing countries as a tool to build human capital: design and implementation issues.

Germany and New Zealand).⁷¹ International evidence suggests that these related interventions, when carefully designed, can work together to increase the coverage and adequacy of social insurance programs.

Within Malaysia's education space, measures are required to improve learning processes, especially for socioeconomically disadvantaged children. With prolonged school closures, it is likely that disparities between the socioeconomically advantaged and disadvantaged households have widened existing learning gaps. The short-term focus should be to conduct a comprehensive assessment to determine the magnitude of the learning loss that has occurred; to mitigate these losses through remedial interventions; and to support students' wellbeing when they return to school to prevent potential dropouts.

As a crucial first step, the government could conduct an assessment of the pandemic-related learning loss to determine the specific needs of students as they re-engage in face-to-face learning. A comprehensive assessment of this sort would enable more accurate decision-making related to curriculum and other necessary adjustments. Following this assessment, the government could also consider developing accelerated learning programs that include a condensed curriculum, tailored teaching and learning resources, and frequent formative assessments of learning progress to enable students to overcome the loss of learning. A condensed curriculum focuses on prioritizing outcomes instead of covering all content knowledge and includes essential skills and knowledge that are common across all subject areas. An evaluation of the current curricula to determine the prioritization of necessary outcomes and core subjects could also mitigate learning loss for entire cohorts, not just for disadvantaged students. Furthermore, disadvantaged students who are most affected by the school closures can also benefit from additional mentoring sessions and intensive remedial programs to catch up on lessons that they were not able to participate in at home.

In the event of future school closures, measures should be implemented to provide support to enable disadvantaged students and parents to meaningfully and actively engage in home-based learning. Apart from the issues of access to learning devices and internet connections, the HiFy survey shows that a number of other key issues also constrain the participation of disadvantaged students in online learning, including lack of interest on the part of students and limited parental supervision. Parents

who are less educated or in blue collar jobs may have a limited ability to engage or assist their children at home due to challenges related to a lack of information and resources, time constraints, and limited work-from-home options, among other factors. To mitigate these constraints, schools could consider a hybrid learning model that enables disadvantaged students to receive more face-to-face instruction and individualized learning support. Engagement between schools and disadvantaged families could also be strengthened to facilitate the collaborative development of solutions that generate optimal outcomes for each student. For example, parents could work with teachers to define what "progress" is for each student and to co-create more realistic, personalized learning goals for their children. Building shared expectations between educators, parents, and students could incentivize families and boost parents' confidence in working with their children towards achieving their goals. Establishing clear feedback loops between families and educators could also enable teachers to better determine feasible workloads for each family given their specific constraints, and to provide guidance to parents to enable them to effectively support their children's learning. To facilitate the involvement of working parents in home learning, policies to encourage employers to provide family leave opportunities or time-off from work could also help parents to effectively engage while maintaining their jobs. This approach has been adopted by a number of OECD countries, including Slovenia, Germany, Canada and France (OECD, 2020).

Teachers, schools, and district offices should be provided with support to implement strategies to help students to achieve socioemotional wellbeing and to cope with learning difficulties. In the two rounds of the HiFy survey, a significant proportion of respondents reported that their children had lost interest in learning during the school closures, which may lead to some of them dropping out or failing to return to school. Given that the challenges that students face vary depending on their circumstances, a one-size-fits-all intervention is unlikely to be effective in supporting their wellbeing. Thus, school leaders and teachers, with a greater awareness of the specific needs of their students, could play a critical role in fostering a positive environment that promotes a stronger sense of belonging and a growth mindset, contributing to better learning outcomes and performance. The MOE can also consider working with the MOH to increase the number of health professionals and counselors allocated to schools as a short-term measure to support students' socioemotional wellbeing.

⁷¹ Hinz, Richard, Holzmann, Robert, Tuesta, David and Takayama, Noriyuki. 2013. Matching Contributions for Pensions: A Review of International Experience.



In the medium- to long-term, policies should look into addressing shortcomings and managing impact of the pandemic

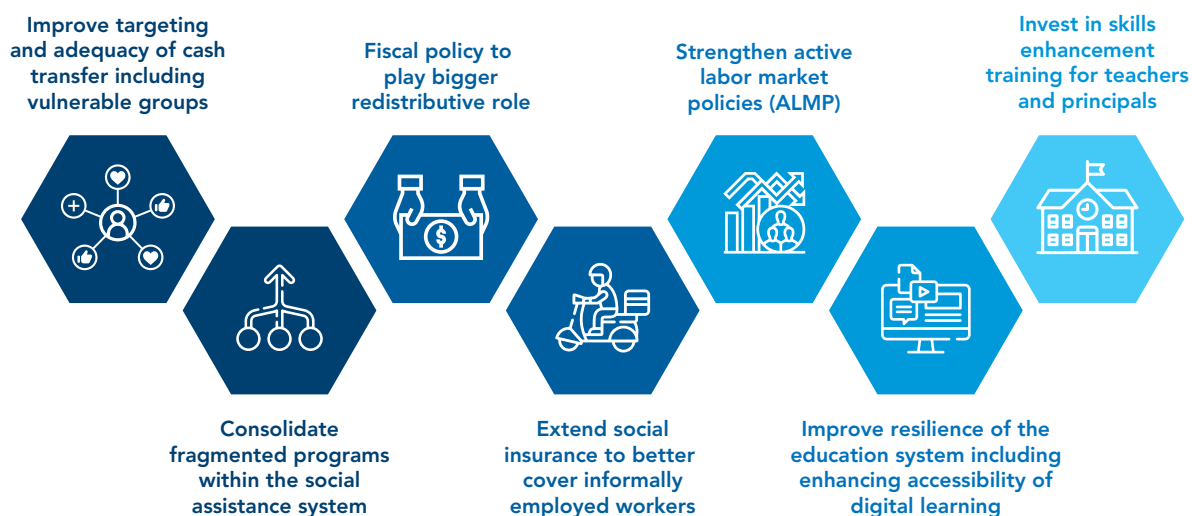
Over the medium term, policymakers should work to address the shortcomings in the current social safety net and education systems and to manage the long-term impacts of the pandemic. As the previous sections show, the pandemic has exposed a number of gaps and limitations in the ability of Malaysia's existing social safety net system to fully protect poor and vulnerable households in crises. Similarly, the pandemic has also cast a clearer light on disparities and quality issues in the educational system. Policymakers should seize the opportunity to implement measures to make improvements in these areas, not just as a response to the pandemic, but to ensure the achievement of more equitable and sustainable growth more generally (see Figure 74).

The targeting and adequacy of Malaysia's cash transfer systems should be improved to provide better coverage and protection. There may also be space to improve the targeting of cash transfers to ensure the inclusion of poorer and more vulnerable households, including the informally employed. This can involve outreach programs, and leveraging existing registries for cash transfer programs that focus on the most vulnerable, such as those implemented by

the Department of Social Welfare (*Jabatan Kebajikan Masyarakat, JKM*), as well as registries of known vulnerable groups like informally employed workers, for instance using the registry of enrolment to SESSS. Improvements in targeting could also potentially free up resources to increase the benefit levels of cash transfers, resulting in better coverage of the currently excluded poor households and in a stronger impact on reducing poverty and inequality, without a commensurate increase in costs.

Malaysia could develop a modern, integrated, efficient and shock-responsive social assistance system that effectively protects low-income and vulnerable households by consolidating and rationalizing a range of existing programs. Reforms to the social protection system should focus on ensuring the provision of adequate and tailored benefits; sufficient coverage of the poor and vulnerable; progressive targeting; dynamic assessment and responsiveness to shocks; and integrated and efficient delivery. By consolidating the current range of programs, including their beneficiary registries, and retaining the best practices and systems of each, policymakers could reduce under-coverage, achieve a

FIGURE 74
Long-term policies should address shortcomings in the social safety net and education systems and manage the pandemic's long-term impact



Source: World Bank staff elaboration



higher impact with available resources, and improve efficiencies in social protection delivery. This could play a strong role in building household-level resilience to future economic shocks.

Over time, the Malaysian government may need to increase its expenditure on social assistance to ensure a robust social protection system and to promote equitable outcomes. Prior to the pandemic, Malaysia's social assistance spending lagged behind other aspirational or high-income countries. In 2018, Malaysia's social assistance spending accounted for about 1.0 percent of GDP. By contrast, in high-income

countries, the average value of social assistance spending accounts stood at 2.0 percent of GDP.⁷² In addition, the bulk of Malaysia's social expenditure is on fuel subsidies, which are highly regressive and disproportionately benefit high-income households. However, in 2020 and 2021, in the context of the pandemic, Malaysia's expenditure on social protection programs increased to an average of 2.1 percent of GDP, with roughly half of this allocated to cash assistance programs. In the post-pandemic context, Malaysia's fiscal policy could play a greater redistributive role, with increases to the government's revenue through the imposition of a more progressive taxation framework,

⁷² World Bank. 2020d. Malaysia Economic Monitor, June 2020, Surviving the Storm.

a higher level of social assistance spending that can alleviate exclusion errors, and with greater spending efficiency achieved by shifting away from blanket subsidies to a more targeted system.

Policymakers should strive to extend social insurance coverage to a greater range of informally employed workers, with the establishment of a system that distributes benefits according to the workers' needs and abilities. These reforms should be based on lessons learned from pilot measures that can be implemented in the short term. Depending on factors such as their levels of education, income, sector of activity and geographical location, informally employed workers may face varying constraints on access to social insurance coverage. These could relate to both the ability and the willingness to make social security contributions and their knowledge of and ability to access social insurance programs. Each of these factors may need to be addressed separately, with different approaches for different groups of informally employed workers, to enable better protection, and to develop resilience in preparation for future crises. Extending social insurance coverage is likely to require amendments and additions to existing legal instruments, together with sound systems to ensure their full implementation and enforcement.

Active labor market policies (ALMPs) should be strengthened to increase their responsiveness to economic shocks. Following the example from the OECD (2021), an effective set of ALMPs should ensure the effective use of resources reach the people in need, especially those most at risk of permanent detachment from the labor market. The set of ALMPs offered should be flexible and responsive to allow swift and appropriate responses to economic shocks. Policies should support labor demand, labor supply, and the intersection between the two. A strong set of training initiatives, particularly those that leverage digital technologies, is also required to facilitate the reallocation of workers across sectors and occupations as needed, such as during economic crises. Measures to address the duplication and fragmentation that currently exist in Malaysia's ALMPs would also make them more accessible to potential beneficiaries and more cost effective for the government.

Looking ahead to the post-pandemic period, policymakers could strive to improve the accessibility and quality of digital learning in preparation for other shocks that may occur in the future. The lessons learnt from the past 18 months

experience with digital learning create opportunities to improve the resilience of the system by enhancing the digital learning environment, smoothing the transition to home-based learning, and minimizing the risk of disadvantaged students being left behind, in cases where school closures are required in the future. The government and schools need to ensure the adequacy of ICT infrastructure; to improve the skill levels of teachers, principals, and students in the use of digital tools and platforms; and to review the instructional content and material available for digital delivery. Overall improvements in the quality of digital learning and the development of better hybrid learning environments could also mitigate issues that constrain at-home learning participation, such as the lack of interest amongst children in online classes and the need for parental supervision.

To further develop the resilience of the education system, the government could strive to improve the provision of training and support to teachers and principals to enable them to be more responsive and adaptive to future shocks. This includes adding skills at the school level to assess not just the immediate impact of the pandemic on learning losses, but students' learning needs and outcomes more generally, followed by measures to enhance their skills and abilities to provide more individualized and differentiated instruction. The remedial interventions outlined in the short-term recommendations could be expanded further to meet varying learning needs, especially among the more disadvantaged groups of students. In the context of the pandemic, schools have been forced to make more localized and individualized decisions regarding how to support their students and meet their needs. Policymakers should build on this to improve this contextualized support and thus to ensure that Malaysia's education system plays an effective role in building human capital and facilitating the achievement of equitable, sustainable growth.

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