

Malaysia: Brief Profile

September 2022

Domestic Economy

- ❖ The real GDP of Malaysia expanded at 3.1% in 2021 after contracting by 5.5% in 2020.
- ❖ In absolute terms, GDP of Malaysia stood at US\$ 373 billion in 2021, with per capita GDP of US\$ 11,101.2.
- ❖ Average consumer price increased, and the country recorded an inflation of 2.5% in 2021, against a deflation of 1.1% in 2020.
- ❖ Services sector dominates the economy, accounting for 55.4% of Malaysia's GDP in 2020. It was followed by industrial sector (36.3% of GDP) and agricultural sector (8.3%).
- ❖ Major industries in Peninsular Malaysia include rubber and oil palm processing and manufacturing, petroleum and natural gas, light manufacturing, pharmaceuticals, medical technology, electronics and semiconductors, timber processing; Sabah includes logging, petroleum and natural gas production; and Sarawak includes agriculture processing, petroleum and natural gas production, logging.

BASIC FACTS

Land area: 330,252 sq km

Population: 33.6 mn (2021)

Language: Malay, Chinese, English, Tamil, Iban (in Sarawak), Banjar (in Sabah)

Currency: Ringgit or Malaysian dollar (M\$ or RM)

GDP: US\$ 373.0 bn (2021)

Exports: US\$ 235.7 bn (2021)

Imports: US\$ 194.6 bn (2021)

Sovereign Rating: A- (S&P's)

Trade and External Sector

- ❖ Malaysia's exports increased to US\$ 235.7 bn in 2021 from US\$ 186.1 bn recorded in the preceding year.
- ❖ Malaysia's imports also increased to US\$ 194.6 bn in 2021, as compared to US\$ 153.2 bn recorded in 2020.
- ❖ Accordingly, Malaysia's trade surplus increased to US\$ 41.1 bn in 2021, as compared to US\$ 32.8 bn recorded a year ago.

- ❖ Electrical machinery and equipment was the major export item of Malaysia, accounting for 34.4% of Malaysia's exports in 2021. Other products in Malaysia's export basket in the same year comprised mineral fuels, oils, distillation products (12.5% of the total exports), machinery and mechanical appliances (8.4%), animal, vegetable fats and oils (6.6%), rubber and its articles (5.6%) and optical and photographic apparatus (4.2%).
- ❖ Malaysia's major imports in 2021 included electrical equipment (30% of the total imports), mineral fuels, oils, distillation products (12.5%), machinery and mechanical appliances (9.1%), plastics and its articles (4%), and iron and steel (3.1%).
- ❖ China was the major export destination of Malaysia in 2021 accounting for 15.5% of Malaysia's total exports. Other major export destinations in the same year included Singapore (14% of the total exports), USA (11.5%), Hong Kong (6.2%), Japan (6.1%), and Thailand (4.2%).
- ❖ The main sources of Malaysia's imports in 2021 were China (23.2% of the total imports), Singapore (9.5%), Taiwan (7.6%), USA (7.6%), Japan (7.5%), and Indonesia (5.7%).
- ❖ Malaysia's current account surplus remained at US\$ 14.1 bn (3.8% of GDP) in 2021, as it was US\$ 14.1 bn (4.2% of GDP) in 2020.

Foreign Direct Investment, Foreign Exchange Reserves, and Exchange Rate

- ❖ According to the World Investment Report 2022 of the UNCTAD, foreign direct investment (FDI) inflows to Malaysia increased from US\$ 3.2 bn in 2020 to US\$ 11.6 bn in 2021.
- ❖ According to the same report, FDI outflows from Malaysia during the same period also increased to US\$ 4.8 bn in 2021, from US\$ 2.4 bn in 2020.
- ❖ Malaysia's foreign exchange reserves increased to US\$ 116.9 bn in 2021, as against US\$ 107.6 bn in 2020. Reserves reflected an import cover of over 7.2 months.

- ❖ The Malaysian ringgit depreciated to M\$ 4.2: US\$ 1 in 2021, from M\$ 4.0: US\$ 1 in 2020.

Country Rating

- ❖ Standard & Poor's Sovereign Ratings rated Malaysia as A- (more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories in June, 2022. However, the obligor's capacity to meet its financial commitment on the obligation is still strong) with a 'negative' outlook.
- ❖ Dun and Bradstreet's (DB) Country Risk Indicator¹, August 2022 rates Malaysia as DB4a (moderate risk, which implies – significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses). The trend of D&B's ratings for Malaysia falls under the 'stable' category.
- ❖ Moody's Investor services² as on July 29, 2022, rated Malaysia as A3 (low level of credit risk: obligations are judged to be of the upper medium grade) with a 'stable outlook'.
- ❖ According to Organization for Economic Co-operation and Development (OECD)³ country risk classifications of July 2022, Malaysia was placed at category '2'.

¹ The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

² Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

³ The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest).

Macroeconomic Outlook

- ❖ Real GDP is expected to accelerate to 6% in 2022, from 3.1% in 2021. The anticipated return of international visitors will boost activity in the services sector, but tourist arrivals are not expected to return to their pre-pandemic levels. Nonetheless, the tourism sector accounts for a relatively small portion of GDP, with Malaysia's established electronics parts and components industry holding a much larger share. Output growth from this sector is likely to have been robust in the first half of the year but is forecasted to weaken from the second half as demand declines in China and a deterioration in business and consumer confidence in developed markets dents orders from overseas.
- ❖ Consumer price inflation is expected to average at 3.4% in 2022, accelerating from 2.5% in 2021. In 2022 a pick-up in food prices is assumed throughout the year. Services prices are also expected to rise from mid-2022 as more sectors are opened to tourism and domestic demand continues to strengthen.
- ❖ The ringgit is expected to depreciate in average nominal terms against the US dollar in 2022, amid a narrowing of the interest-rate differential between Malaysia and the US. The rate of depreciation would be faster were it not for the support that the ringgit will receive from higher global energy prices; Malaysia is a significant regional producer of oil and liquefied natural gas. The ringgit is expected to depreciate against the US dollar in 2022 at M\$ 4.46: US\$ 1 from M\$ 4.14: US\$ 1 in 2021.
- ❖ The trade surplus is forecast to remain large in 2022-26. The composition of exports and imports will likely remain similar to the historical period. Shipments of electronic and electrical goods will continue to exceed those of mineral fuels by a wide margin. Malaysia will remain embedded in the global electronic goods supply chain, producing components such as semiconductors for mobile devices, along with automotive and computer parts. Current account surplus is expected to decrease from 3.8% of GDP in 2021 to 1.9% of GDP in 2022.

Malaysia: Economic Structure

Economic Indicators	2017	2018	2019	2020	2021	2022 ^f	2023 ^f
GDP at market prices (US\$ bn)	319.1	358.8	365.2	337.3	373.0	378.0	390.8
Real GDP growth (%)	5.8	4.8	4.4	-5.5	3.1	6.0	4.0
Consumer price inflation (avg., %)	3.8	1.0	0.7	-1.1	2.5	3.4	2.7
Population (mn)	32.0	32.4	32.8	33.2	33.6	33.9	34.3
Exports of goods fob (US\$ bn)	186.6	205.7	197.3	186.1	235.7	264.4	276.0
Imports of goods fob (US\$ bn)	159.3	177.2	167.2	153.2	194.6	230.5	240.1
Current-account balance (US\$ bn)	9.0	8.0	12.8	14.1	14.1	7.2	9.1
Total External Debt (US\$ bn)	217.9	223.0	231.0	238.8	258.6	261.0	268.5
Total International Reserves (US\$ bn)	102.4	101.4	103.6	107.6	116.9	105.6	108.5
Exchange rate (avg.; M\$: US\$) (Local Currency: Ringgit or Malaysian dollar (M\$))	4.3	4.04	4.14	4.2	4.14	4.46	4.55

Note: ^f - Forecast

Source: EIU Country Report.