

WELCOME ADDRESS BY TAN SRI ABDUL WAHID OMAR
MALAYSIAN ECONOMIC SUMMIT 2022
14 JUNE 2022

Bismillahir Rahmanir Rahim.

Yang Berhormat Dato' Indera Mohd Shahar bin Abdullah
Deputy Minister of Finance 1

Yang Berbahagia Tan Sri Michael Yeoh,
President, KSI Strategic Institute for Asia Pacific

Datuk Seri Mohamed Iqbal Rawther,
Chairman, Economic Club of Kuala Lumpur

Distinguished guests, ladies and gentlemen,

Assalamualaikum warahmatullahi wabatakatuh and good morning.

1. Welcome to Malaysian Economic Summit 2022. We are especially grateful to the Deputy Minister of Finance 1, Yang Berhormat Dato' Indera Mohd Shahar bin Abdullah for gracing our event this morning and to deliver the keynote address "Accelerating Structural Transformation to Drive Economic Growth - The Case for Malaysia". Thank you YB Dato' Indera. I'm sorry for not being able to be there physically due to my commitment here at the Oxford Centre for Islamic Studies. I look forward to following the exciting proceedings albeit virtually.
2. Please allow me in my welcome address to share some thoughts on the state of Malaysia's economy in terms of the opportunities and challenges.

Ladies and gentlemen,

ON THE PATH TO ECONOMIC RECOVERY

3. It was not too long ago that the world economy was engulfed by the Covid-19 pandemic. In 2020, the global economy contracted by 3.1%. It then recovered last year with a healthy 6.1% in terms of real GDP growth.

4. Malaysia, like most countries, had to contain the pandemic through lockdowns and as a result, the economy contracted by 5.6% in 2020 before growing 3.1% last year. For this year 2022, Bank Negara Malaysia forecasts economic growth to be between 5.3% and 6.3% whilst The World Bank projects the economy to grow by 5.5% this year. It is important to note that these forecasts have been downgraded, underscoring the uncertainties within and beyond the country.
5. The good news is that Malaysia's economy seems to be on the path of recovery, corresponding with the reopening of the economy. The economy exceeded expectations as it recorded a 5% GDP growth rate in the first quarter this year.
6. From a sectoral perspective of the economy, the services sector - which contributes 57% to our GDP - only recovered in the second half of 2021, recording 1.9% growth last year. Even before the pandemic, this sector began plateauing in 2019 and its future trajectory is uncertain. Nonetheless, other sectors, particularly manufacturing, have rebounded strongly with 9.5% growth last year.
7. I believe there are a number of factors to be optimistic of Malaysia's growth outlook. Firstly and most importantly, Malaysia has entered the endemic phase with the relaxation of pandemic control measures and reopening of international borders. This will likely give a boost to the economy with higher mobility for economic activities. Evidently, the traffic congestion is worse than before the pandemic.
8. The endemic phase is likely to contribute to the revival of Malaysia's tourism industry. According to the Department of Statistics Malaysia, the tourism industry supports 3.5 million jobs. During the border closures following the pandemic, tourist arrivals and tourism receipts plunged by more than 80% in 2020. The reopening of international borders, especially with Singapore bodes well for the industry.
9. The high vaccination rate with close to 80% of the population being vaccinated with two doses is another important factor. This compares favourably against ASEAN's rate of 60%. Even as the number of daily Covid-19 cases increased following the recent festivities and holidays, the number of Covid-19 deaths remained low. Our healthcare system is not under tremendous pressure as it was in the past two years.
10. In addition, sound government policy has provided economic relief and support for the people and businesses. These measures include employment incentives, cash transfers and subsidies. As a result, the unemployment rate has significantly declined from a peak of 5.3% in May 2020 to 4.1% last month in May 2022. With more jobs, there will be more spending that will drive private consumption. The Business Confidence Indicator

published by the Department of Statistics Malaysia in February 2022 showed that economic activities are expected to increase. It bodes well for the economic revival.

11. It is also worth mentioning that Malaysia remains an attractive destination for foreign investors. Our foreign direct investment doubled to RM24.7 billion credit inflow in the fourth quarter of 2021 from the fourth quarter of 2020. The total approved investments in 2021 amounted to RM306.5 billion with FDI accounting for 68.1%.
12. Speaking of policy, the Ministry of Finance's recent release of their second Pre-Budget Statement in preparation for the 2023 Budget is a welcome step. It outlines key priorities including reinforcing the post-Covid recovery, strengthening economic and fiscal resilience and driving more inclusive and sustainable development. I believe YB Dato' Indera will shed more light on this.
13. The figures that I mentioned mean that there is much to be optimistic of our economic future. Our economic fundamentals are sound. We have turned the corner against the pandemic and we are well on our way to a recovery. However, we must be clear-eyed about the challenges on the horizon.

Ladies and gentlemen,

DOMESTIC AND GLOBAL CHALLENGES ON THE HORIZON

14. If there is upside, there will be downside. We must consider domestic and global challenges that will affect the Malaysian economy. Geopolitical risks threaten our recovery. The conflict in Ukraine and the economic sanctions on Russia have created uncertainties. It has exacerbated the supply shocks in commodities such as crude oil, natural gas, wheat and sunflower oil. Ukraine and Russia are major exporters of some of these commodities. As a result, the supply shocks have driven up the prices of food commodities.
15. Malaysia has had to contend with these inflationary pressures. Our annual Consumer Price Index went from -1.2% in 2020 to 2.5% in 2021. The inflation rate will continue to rise this year. Inflation has been driven by significant increases in transportation and food costs. Food prices have increased between 3.6% and 4.0% in the first quarter of this year.

16. Fortunately, the government's fuel subsidy has kept a lid on further increases on fuel cost. The gap between subsidised and non-subsidised fuel products is staggering. To give an idea, in the first week of June, the price of RON95 is RM2.05 per litre whereas that of RON97 is RM4.70 per litre.
17. The fuel subsidy is a double-edged sword because while it keeps inflation down, the government's fiscal space will shrink. The Minister of Finance recently mentioned that the government's annual subsidy may double to RM71 billion this year. According to the Ministry of Finance, the government's debt-to-GDP ratio stood at 63.3% in June 2021 against the 65% threshold set by the parliament. Unless the limit is raised, fiscal resources from additional borrowings could be limited.
18. Another major domestic issue is the political uncertainties that have afflicted the country since the last general election. The one question on the minds of many people is when will the next general election be held? Thus far, the indications have not been forthcoming. This issue weighs heavily on the market sentiments.
19. The economic boost from the endemic phase may be neutralised by the adverse global developments such as the conflict in Ukraine, China's Covid 19 lockdown and the inflationary pressures. The short-term goal of economic stabilisation should focus on supporting domestic demand and addressing the impact of imported inflation from weaker exchange rates and higher fuel prices. Bank Negara Malaysia has recently raised the overnight policy rate to 2% last month and has room to address the creeping inflation.

Ladies and gentlemen,

CAUTIOUSLY OPTIMISTIC ABOUT THE WAY FORWARD

20. I have laid out the opportunities and challenges. I am excited to hear from the four panels (including the 'heavyweight' economists) on various economic challenges from structural issues to economic outlook.
21. As always, I am cautiously optimistic that Malaysia will be able to overcome these challenges if we Malaysians were to come together, be constructive and do what we can in our respective role. Malaysia has weathered similar crises of the past including the 1997 Asian Financial Crisis, 2008 Global Financial Crisis and 2015 Stock Market Turbulence. Obviously, there were different factors and will require different

sets of solutions. That means we cannot rest our laurels. We must be persistent and focused.

Ladies and gentlemen,

22. Before I conclude, I would like to once again thank YB Dato' Indera Mohd Shahar for gracing our event. I would also take this opportunity to thank the organisers, KSI and the Economic Club of Kuala Lumpur who have been instrumental in making sure the hard questions will be discussed during this event.

23. To all, thank you for joining us and I wish you a productive session ahead.

Wabillahi taufik walhidayah wassalamualaikum warahmatullahi wabarakatuh.

Abdul Wahid Omar

14 June 2022