

CHAPTER 1

Economic Management and Prospects

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Covid-19 Pandemic

Restriction in the movement of people and goods as well as provision of services

Malaysia: Economic Management & Prospects

11 March 2020

ECONOMIC ACTION COUNCIL:

Roadmap for Immediate Action



Implementation of 6R Strategy
Resolve, Resilience, Restart, Recovery, Revitalise, Reform

> 27 March
PRIHATIN



> 6 April
PRIHATIN SME+

PrihatinPKS+
Pakej Rangsangan Ekonomi Prihatin Rakyat

> 5 June
PENJANA

penjana
Pelan Jana Semula Ekonomi Negara

> 23 September
KITA PRIHATIN

KitaPrihatin
Kerangka Inisiatif Tambahan Pakej Rangsangan Ekonomi Prihatin Rakyat

Roadmap for Way Forward for next 12 months

Monetary & Financial Developments

Mitigation Factors



Supportive Monetary Policies

OPR

Overnight Policy Rate

SRR

Statutory Reserve Requirement



Robust Banking Sector



Resilient Capital Market

Global Economy

Global Outlook

! Impacting Malaysian businesses

! Impacting the health and livelihood of Malaysians

Global Challenges

Muted Global Growth

Volatile Commodity Prices

CHAired BY
YAB PRIME MINISTER WITH MOF AND EPU AS JOINT SECRETARIAT

Aggravating Factors



Pace of Global Economic Recovery



Escalating US-China tensions



Weak Commodity Prices



Volatile Global Financial Markets

Economic Management

NEW ACT: Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 was passed in Parliament on 21 September 2020.

IMPLEMENTATION OF STIMULUS PACKAGES UNDER THE 6R STRATEGY

Budget 2021

Budget 2021 enters 5th R stage – Revitalise

OBJECTIVE: Address the challenges faced by Malaysia towards becoming an advanced and inclusive nation



Measures are being formulated to enhance people's livelihood, rejuvenate the economy, ensure sustainable development and improve public service delivery. "Rakyat's Prosperity, Business Continuity and Economic Resilience."

Domestic Economy

CHAPTER 1

Economic Management and Prospects

Overview

Recovering the economy from the COVID-19 pandemic has been a daunting task for all nations. The pandemic not only has impacted people's health and livelihood but has also dampened global growth, a situation described as far more challenging than the Great Depression of the 1930s. It has essentially positioned the world into a territory that has never been seen before.

The pandemic turned into a global crisis as nations began to restrict the physical mobility of people and movement of goods and services, which in turn impacted businesses and economies as a whole. The turn of events has muted the anticipated moderation in the US-China trade tension following their trade deal in January 2020. The presumed immediate benefits of the trade deal did not materialise as nations began to take drastic measures to contain the COVID-19 by closing their borders. Closer to home, the Malaysian Government is riding its own challenges, where the sudden emergence of the pandemic and its rapid spread caught everyone off-guard.

As a trading nation, the Malaysian economy faces greater challenges posed by the pandemic. While enduring challenges from an already muted global economic growth amid volatile commodity prices, the nation saw a new administration taking the helm. With cases

on the rise, the new Government established the Economic Action Council (EAC) on 11 March 2020 to formulate short- and medium-term measures to protect the people and livelihood. Chaired by the Prime Minister, the EAC comprises economic ministers, high-level public sector officials and captains of industries, as members.

The EAC subsequently endorsed a six-stage systematic approach – Resolve, Resilient, Restart, Recovery, Revitalise and Reform – to address the pandemic with the priority to protect both the people and the economy. The Government announced the Prihatin Rakyat Economic Stimulus Package (PRIHATIN) on 27 March 2020. The package, valued at RM250 billion, is aimed at protecting the people, supporting businesses and strengthening the economy. In essence, the package provided financial assistance to the people as well as initiatives to secure jobs, boost consumer confidence and stimulate the economy. On 6 April 2020, the PRIHATIN Plus package of RM10 billion was announced to provide further support to small and medium enterprises (SMEs). With the reduction in the number of COVID-19 cases, the Government launched the RM35 billion National Economic Recovery Plan (PENJANA) on 5 June 2020 to restart the economy. Additionally, the Government announced the PRIHATIN Supplementary Initiative Package (KITA PRIHATIN) on 23 September 2020 amounting to RM10 billion to further ease the burden of the people and keep businesses afloat.

TABLE 1.1. *Economic Stimulus Packages 2020*

PROGRAMME		RM BILLION
	PRIHATIN	250.0
1	Loan Moratorium	100.0
2	Danajamin: Financing Guarantee Scheme	50.0
3	EPF: i-Lestari Scheme	40.0
4	Bantuan Prihatin Nasional	10.0
5	EPF: Employer Advisory Services	10.0
6	Wage Subsidy Programme	5.9
7	BNM: Facilitation Fund	4.0
8	Small Infrastructure Projects	2.0
9	Healthcare (COVID-19)	1.5
10	Food Security Fund	1.0
11	Micro Credit Scheme	0.5
12	Assistance for Tertiary Students	0.3
13	Other PRIHATIN Measures	5.1
14	Economic Stimulus Package	19.7
	PRIHATIN Plus	10.0
15	Additional Wage Subsidy Programme (enhancement of the existing programme)	7.9
16	Geran Khas PRIHATIN	2.1
	PENJANA	35.0
17	Initiatives to Empower the People	13.2
18	Initiatives to Propel Businesses	9.7
19	Initiatives to Stimulate the Economy	6.7
20	Other PENJANA Measures	5.4
	KITA PRIHATIN	10.0
21	Bantuan Prihatin Nasional 2.0	7.0
22	Wage Subsidy Programme 2.0	2.4
23	Geran Khas PRIHATIN	0.6
	GRAND TOTAL	305.0

Source: Ministry of Finance, Malaysia

Outlook

Global Economy

The global economy is projected to record a negative growth of 4.4% in 2020 due to wavering performance in both the advanced economies and the emerging market and

developing economies (EMDEs). The gross domestic product (GDP) of the advanced economies is projected to contract 5.8% in 2020, as a result of sluggish private consumption, coupled with lacklustre global trade. Similarly, the GDP of the EMDEs is expected to decline by 3.3% in 2020, due to a drop in both private consumption and investment as well as unfavourable external demand.

In 2021, the global economy is projected to recover with a growth of 5.2%. The advanced economies are forecast to rebound by 3.9%, led by improved domestic demand and trade activities. Likewise, the GDP of the EMDEs is expected to record a growth of 6%, driven by steady domestic demand and higher exports. Risks to global outlook include re-intensified US-China trade disputes, uncertainties surrounding Brexit, continued low oil prices and deepening climate crisis.

Domestic Economy

The Malaysian economy contracted by 8.3% in the first half of 2020, with a decline of 17.1% in the second quarter. The economy is expected to contract at a slower pace in the second half of the year, aided by the speedy implementation of various stimulus packages to support the people and revitalise the economy. In 2020, the economy is expected to contract by 4.5%. The impact of the packages is anticipated to have spill-over effects and provide an additional boost to the economy in 2021. With the anticipated improvement in global growth and international trade, the Malaysian economy is projected to rebound between 6.5% and 7.5% in 2021. Growth will continue to be supported by strong economic fundamentals and a well-diversified economy. However, the favourable outlook hinges on two major factors – the successful containment of the pandemic and sustained recovery in external demand.

Monetary and Financial Developments

The Overnight Policy Rate was reduced successively by 125 basis points to a historic low of 1.75% during the first seven months of 2020. Similarly, the Statutory Reserve Requirement was reduced by 100 basis points from 3.00% to 2.00% to ensure sufficient liquidity to support the domestic financial

market. Monetary policy will continue to be supportive of the domestic economy. The banking sector will remain robust and orderly, underpinned by ample liquidity and strong capital buffers. Likewise, the capital market is anticipated to be resilient, driven by well-developed infrastructure and instruments. However, the pace of global economic recovery, weak commodity prices and volatile global financial markets are among factors which may hamper the performance of the domestic financial market.

Economic Management

The immediate focus of the Government in managing the crisis is on ensuring the safety of the people and addressing the needs of households and businesses adversely affected by the COVID-19. A new Act entitled Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 was passed in Parliament on 21 September 2020 to finance the stimulus packages. The Act enables the Government to implement the stimulus packages formulated on the six-stages of R effectively. The “Resolve” stage was characterised by the Government’s effort to contain the spread of the virus through the implementation of a full Movement Control Order (MCO). The “Resilient” stage was when the Government announced the PRIHATIN and the PRIHATIN Plus stimulus packages. During the “Restart” and “Recovery” stages when the COVID-19 curve was flattened and the economy was gradually opened, the Government announced the PENJANA package. PENJANA aimed at rejuvenating the economy based on three strategic thrusts – empowering the people, propelling businesses and stimulating the economy. The next two stages – “Revitalise” and “Reform”, will involve the formulation and implementation of measures in the 2021 Budget and the Twelfth Malaysia Plan, 2021-2025 (12MP). In particular, the 2021 Budget will focus on caring for the people, enabling local businesses and revitalising the economy.

FEATURE ARTICLE 1.1

COVID-19: Impact and Policy Responses

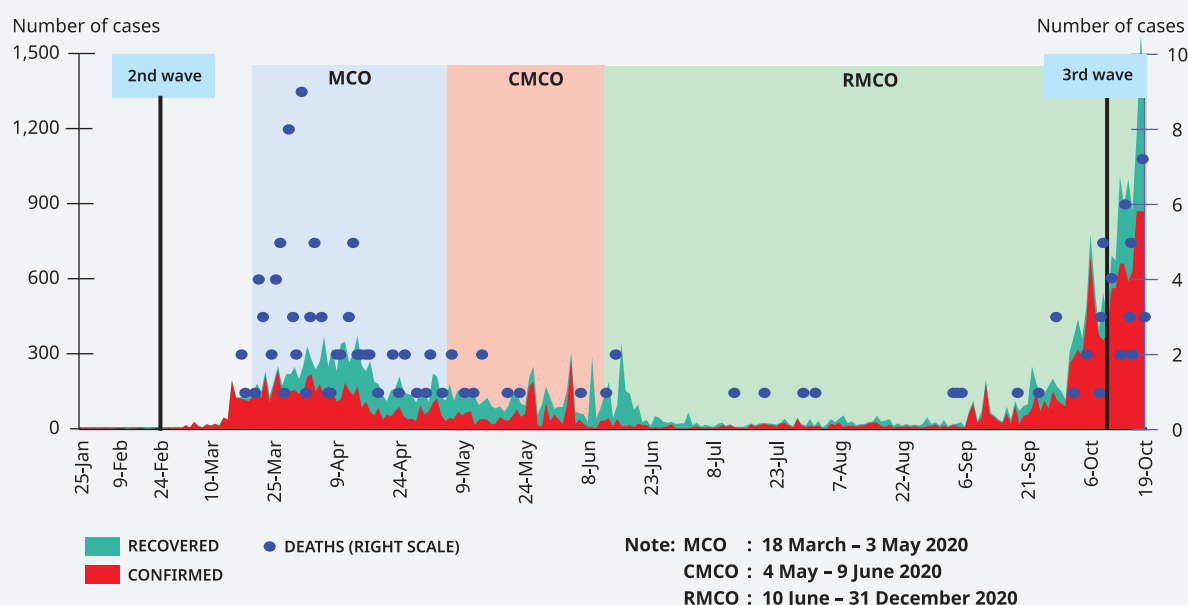
Introduction

COVID-19, the viral outbreak that was first detected at the end of 2019, coincided with a worldwide economic slowdown amid trade tensions and commodity price volatility. As the virus spreads around the world, it has far-reaching consequences beyond the disease and the efforts to contain it. Various measures to contain the outbreak, such as border closures, physical distancing and lockdowns, have led to sluggish aggregate demand and disruptions in the supply chain. The pandemic is now expected to cause the worst global recession in history, far worse than the Great Depression in the 1930s (International Monetary Fund, 2020). Governments worldwide responded by expanding their monetary policy and increasing fiscal spending to prop up household incomes, support employee retention and provide liquidity assistance for businesses.

Malaysia: Case in Point

The crisis brought on by the pandemic presents a unique challenge as policymakers have to balance between protecting lives and livelihood in managing the pandemic. Malaysia is no exception. During the initial stage of the outbreak, the impact was limited to the tourism-related industries, including airlines, tour operators, recreational activities, accommodation and restaurants. In response, the Government announced the first stimulus package of RM20 billion on 27 February 2020. The package was aimed at increasing capacity of the healthcare sector in containing the outbreak, supporting the cash flow of affected businesses and stimulating domestic tourism industry.

FIGURE 1.1.1. New Cases vs Recoveries



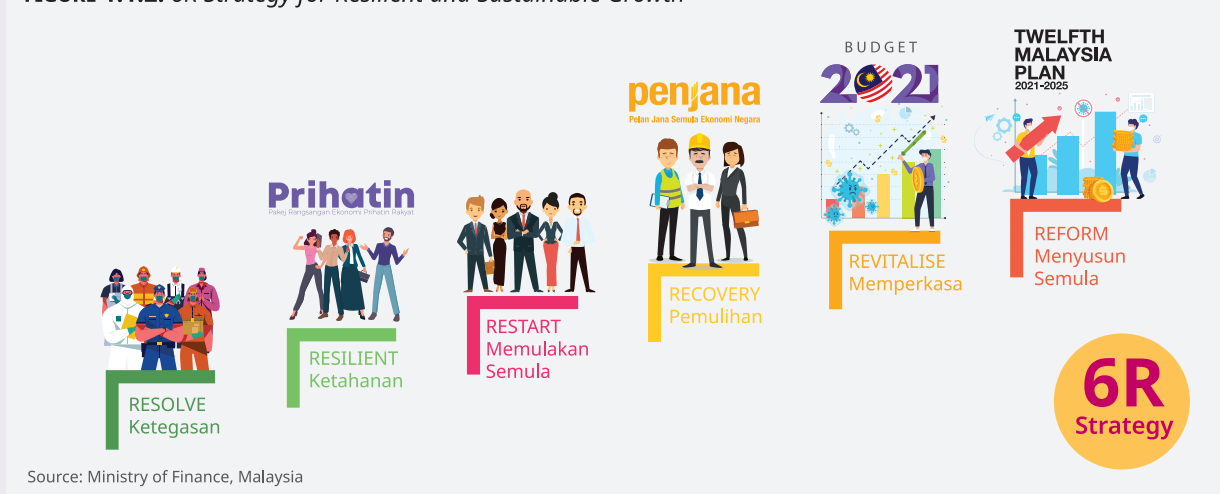
Local cases started to escalate in early March 2020 (Figure 1.1.1.), with more clusters began to emerge during what was categorised as the second wave of transmission. Within a few weeks, Malaysia recorded the largest cumulative number of confirmed COVID-19 transmission in Southeast Asia, with over 2,000 active cases by the end of March. In a critical move to mitigate the outbreak and flatten the curve as recommended by the World Health Organisation, the Government imposed a full Movement Control Order (MCO) effectively on 18 March 2020. In addition, the Government established a task force to manage the crisis led by the Prime Minister himself, with representation by relevant ministries and agencies. The task force is responsible for gathering intelligence on the development of the pandemic and coordinating efforts to contain the outbreak.

The MCO was made more lenient under the Conditional Movement Control Order (CMCO) on 4 May 2020, where most economic sectors were allowed to resume operations under certain Standard Operating Procedures (SOPs). At this stage, all businesses, with a few exceptions, were allowed to reopen under strict SOPs, including contact tracing, mandatory use of face masks in public and physical distancing. Nonetheless, international and interstate travels were still restricted as the threat of the virus persisted.

As cases began to de-escalate, the economy was reopened for people to resume their economic activities and livelihood. The CMCO was then followed by the Recovery Movement Control Order (RMCO) starting 10 June 2020, which is extended until 31 December 2020. The implementation of the RMCO is based on protecting vulnerable groups, empowering the community, embracing the new normal, resuming almost all economic sectors, continuing border control and enhancing public health.

Malaysia received global recognition as among the more successful countries in containing the pandemic. Nonetheless, the Government is fully aware that this containment move has to be parallel with the reopening of the economy to prevent long-term structural damage. Therefore, the Government applied the 6R approach, representing six stages: Resolve, Resilient, Restart, Recovery, Revitalise and Reform (Figure 1.1.2.).

FIGURE 1.1.2. 6R Strategy for Resilient and Sustainable Growth



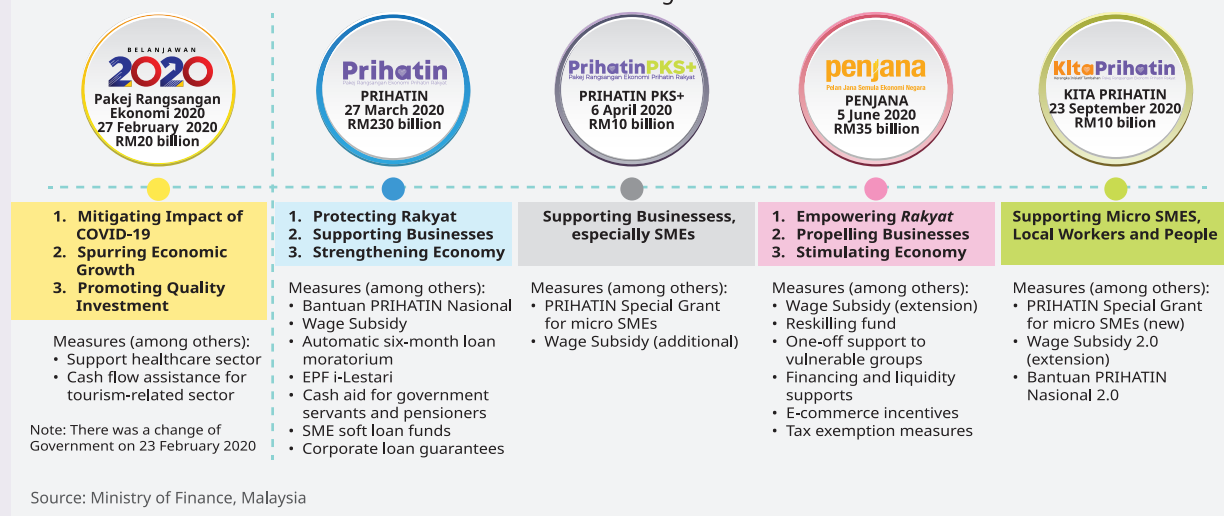
The Resolve strategy was implemented as early as when the MCO was first announced on 18 March 2020. The movement control and physical distancing resulted in temporary closures of most businesses, especially the non-essential sectors, which resulted in higher unemployment. Accordingly, the Government announced the second stimulus package on 27 March 2020. The package, known as Prihatin Rakyat Economic Stimulus Package (PRIHATIN), totalling RM230 billion, was aimed at softening the impact of the crisis. PRIHATIN provided cash transfers to supplement the loss of income and wage subsidies to encourage businesses to retain employees. In addition, the package includes an automatic moratorium on loan repayments for six months to households, which ended in September 2020, partly to encourage private consumption. Subsequently, the Government announced an additional RM10 billion through PRIHATIN PLUS on 6 April 2020, particularly to help the small and medium enterprises (SMEs) remain resilient to weather the unprecedented crisis.

As part of the fourth stage of the 6R approach (Recovery), the Government announced a short-term economic recovery plan or *Pelan Jana Semula Ekonomi Negara* (PENJANA) on 5 June 2020 totalling RM35 billion. The main objective of PENJANA was to restart the economy by incentivising people and businesses to resume their activities, amid the new normal. It was complemented with the implementation of the RMCO, with almost all restrictions lifted. However, businesses were required to self-regulate, adhere to the SOPs and adjust to the new normal.

As the loan moratorium period and wage subsidy ended in September 2020, the Government received feedback that people and businesses were still financially-stricken. Hence, an additional stimulus package was announced on 23 September 2020 to further ease the people's burden and keep businesses afloat. The package, PRIHATIN Supplementary Initiative Package (KITA PRIHATIN), amounting to RM10 billion, will benefit micro SMEs, local workers as well as B40 and M40 groups. In addition, a targeted loan moratorium was extended to businesses and people to ease their financial commitment.

Budget 2021 is the fifth stage of "Revitalise" in the 6R approach, aiming to revitalise post-crisis economic growth. The Budget focuses on four areas – caring for the people, steering the economy, sustainable living and enhancing public service delivery. The final stage of the 6R approach is "Reform", where medium-term strategies to reform the economy will be outlined in the Twelfth Malaysia Plan, 2021 – 2025. These strategies will take advantage of the economic momentum in efficiency and productivity, towards a more sustainable and higher value-added economy (Figure 1.1.3.).

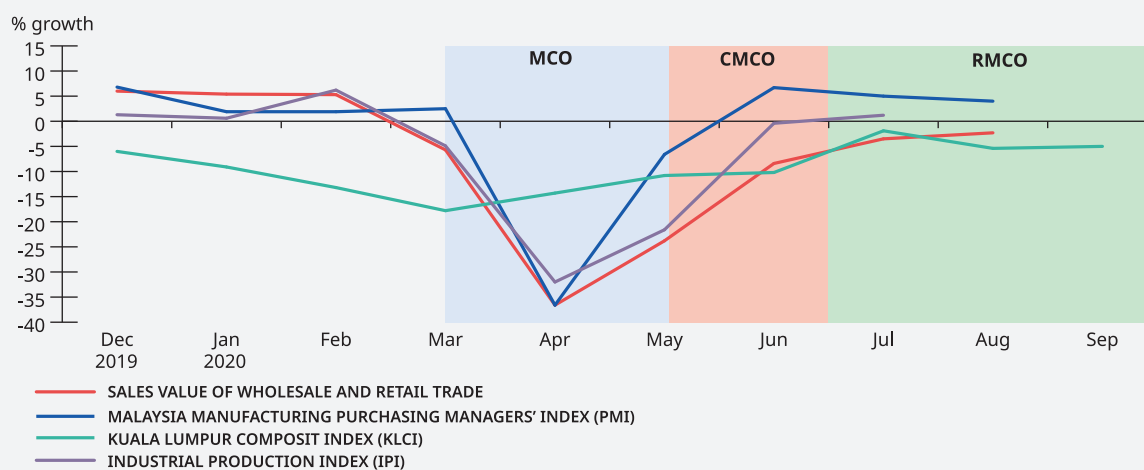
FIGURE 1.1.3. Measures under the Economic Stimulus Packages



Economic Impact of COVID-19

Efforts by the Government to revive the economy have proven to be effective as reflected in the improving macroeconomic indicators from the significant decline in the second quarter of 2020 (Figure 1.1.4.). The stimulus packages that consist of fiscal and non-fiscal measures totalling RM305 billion are expected to cushion the crisis and stimulate the economy by boosting aggregate demand and sustaining employment. Internal estimates project that the packages would add to the gross domestic product (GDP) growth by 4.0 – 4.2 percentage points in 2020. The estimated impact on employment is 3.5 percentage points, preventing about 560,000 workers from losing their jobs.¹

FIGURE 1.1.4. *Short-term Macroeconomic Indicators*



Source: Department of Statistics, Malaysia, Bloomberg and IHS Markit

Conclusion

The timely response by the Government in imposing the MCO to flatten the curve, complemented by swift stimulus packages, has cushioned the impact of the crisis. This success was also supported by the overall strict adherence of the public to the different phases of MCO and SOPs, which was crucial in containing the pandemic. As a result, the economy is expected to improve gradually in the second half of the year, as reflected by various macroeconomic indicators. The stimulus measures have paved the way for a firm economic recovery, subject to successful, continued containment of the pandemic. Being an open economy, the speed and magnitude of Malaysia's full economic recovery are also dependent on the performance of its major trading partners. Nevertheless, the crisis offers businesses the opportunity to reform strategies, expedite digital transformation and reallocate resources to increase efficiency and productivity. Unless and until a vaccine is found and made widely accessible, the war against COVID-19 is not over, and efforts to curb the virus and its impact are still ongoing.

Note:

The third wave of COVID-19 outbreak suddenly emerged and a 14-day CMCO had to be imposed commencing 13 October 2020 in Sabah, 14 October 2020 on three states – Selangor, Federal Territories of Kuala Lumpur and Putrajaya and 17 October 2020 in Federal Territories Labuan, to re-flatten the COVID-19 curve. At the time of printing, the number of positive cases has yet to peak.

¹ Based on the Dynamic Computable General Equilibrium (CGE) for the Malaysian Economy (MyAGE) model, Ministry of Finance, Malaysia

Issues and Challenges

As Malaysia intensifies its efforts to unshackle itself from the middle-income trap, it continues to face several challenges. The most pertinent issue following the outbreak of the pandemic is the drastic decline in economic activities, particularly the tourism-related subsectors. The pandemic exacerbated the existing structural problems, such as food insecurity, limited employment opportunities, regional imbalances, lack of focus on sustainable development, the rising cost of living and insufficient affordable housing. In addition, the apparent digital gap between industries and the limitation in the logistics sector continue to hamper economic progress.

Impact of COVID-19 on Tourism-related Subsectors

The tourism industry, with a share of 15.9% of GDP, is one of the main contributors to the services sector in 2019. Domestic tourists contributed RM92.6 billion while international tourists spent RM89.4 billion in 2019. The implementation of the MCO in Malaysia and the closure of international borders to contain the virus outbreak have affected people's movements and activities, particularly in tourism-related sub-sectors. According to Malaysia Association of Hotels, hotel booking cancellations from January 2020 to 20 March 2020 breached over 193,000 rooms, which translates into RM76 million losses in revenue for the industry. At the same time, the hotel occupancy rate dropped from 61.6% in January 2020 to 25% in March 2020. With the gradual recovery of the economy, the accommodation industry started to pick-up with the occupancy reaching 42.1% from 30 August to 5 September 2020. In addition, the Malaysian aviation industry is projected to lose RM13 billion in 2020 as air travel plummeted following international travel restrictions. As it is still uncertain when a vaccine for COVID-19

will be available and made accessible to all, the tourism industry is facing a bleak near-term future.

Food Insecurity

Although the Government continues to focus on the development of the agriculture sector, food insecurity remains an issue. The 2019 Global Food Security Index ranks Malaysia at 28th position, which is lower compared to other nations with lesser natural resources (Economist Intelligence Unit, 2019). Furthermore, the 2019 Self-Sufficiency Ratio (SSR) indicates that Malaysia has yet to be self-sufficient in some of its staple foods (Department of Statistics Malaysia, 2020). For example, in 2019, Malaysia's rice production is sufficient to meet only 70% of domestic demand. Other food items with lower SSR includes sweet potato (81.7%), coconut (68.2%), cabbage (36.2%), mango (32.1%), chilli (30.8%) and ginger (16.2%). Factors contributing to the unattractive supply of staple foods include low wages in the agriculture sector, the prevalence of pests and diseases, lack of technology adoption and low interest among the younger generation in the agriculture sector.

Limited Employment Opportunities

Youth unemployment continues to be an issue, recording double-digit rates even during the overall full employment periods in the economy. The educational mismatch is also prevalent in the labour market, where individuals with tertiary education are employed in the semi-skilled and low-skilled occupations. In 2019, a total of 26.7% of graduates was underemployed mainly due to insufficient jobs in skilled occupations. Malaysia is also heavily reliant on migrant workers, particularly low-skilled foreign workers. At the same time, while the gig economy is gaining prominence, it does not provide gig workers with appropriate social safety coverage.

FEATURE ARTICLE 1.2

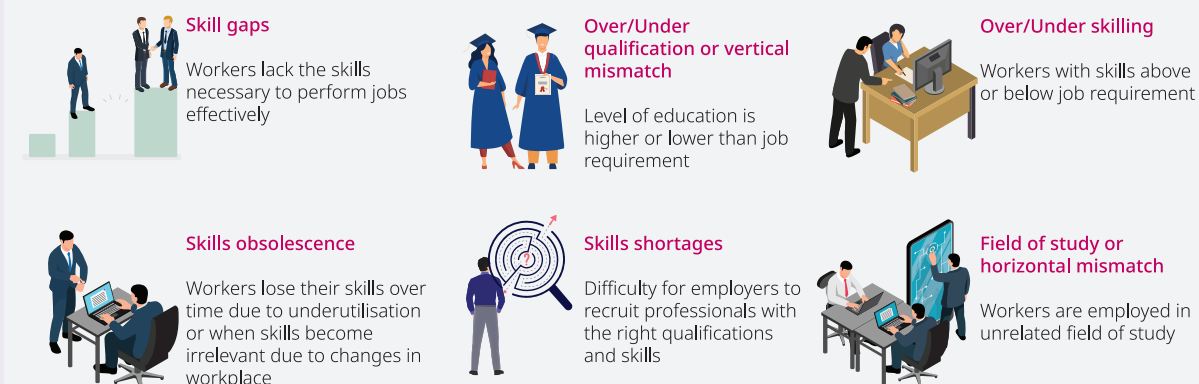
Labour Market Mismatch

Introduction

Education plays a significant part in building human capital. It creates a sufficient pool of educated workforce and is an essential determinant of a high-income and advanced nation. Given its importance, the percentage of Government expenditure on tertiary education has increased significantly from 11.3% of total expenditure on education in 1971 to 21.3%¹ in 2018 (World Bank, 2020) to support this aspiration. The Private Higher Educational Institutions Act 1996 [Act 555] was also introduced to further complement the effort to increase access to tertiary education. This investment has resulted in millions of knowledge workers with tertiary² education entering the labour market.

On the demand front, the unemployment rate is a common proxy to measure the health of the labour market. While a low unemployment rate is an ideal situation, it can hide other aspects such as underemployment or a mismatch. In general, underemployment³ or mismatch refers to the underutilisation of workers' education and skills (Figure 1.2.1.). Malaysia's achievement in maintaining the economy at full employment level since 1992 is commendable. However, there are concerns on whether the investment in education has achieved the desired outcome, given the current high incidence of underemployment or mismatch, particularly among graduates.

FIGURE 1.2.1. Types of Skill Mismatch



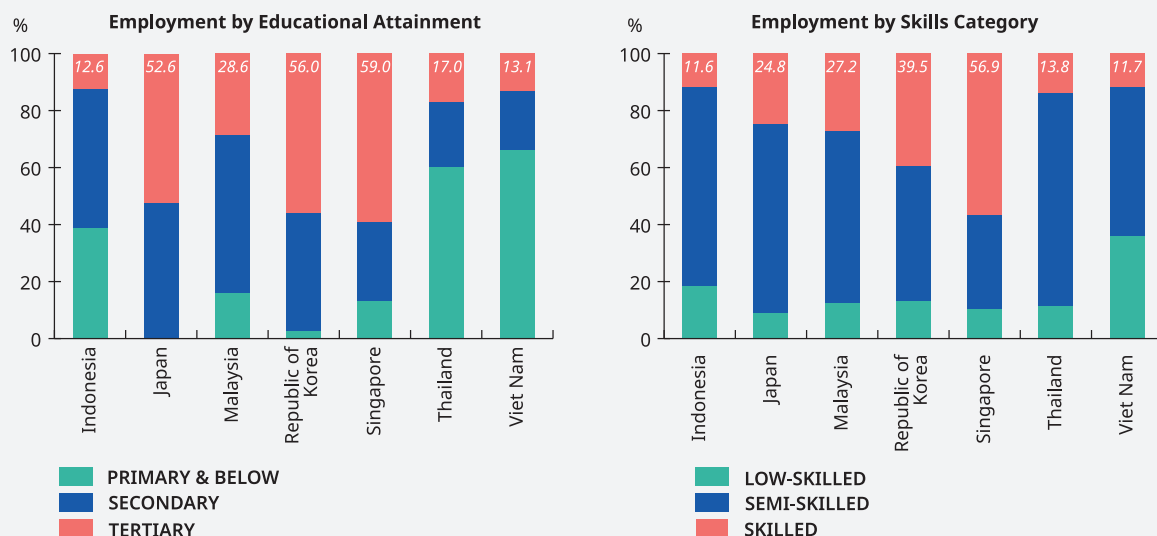
Source: International Labour Organisation, 2015

Underemployment or educational mismatch remains a common long-standing structural issue in many countries, including Malaysia. This can be seen from the occupational trend analysis, which reveals that the share of employment with tertiary education is larger than employment in the skilled category (Figure 1.2.2.). Over qualification mismatch in the labour market sends a signal that returns on investment in education were not optimised as workers were not fully absorbed by the labour market. This article provides an analysis of the current scenario of mismatches in Malaysia's labour market, particularly among graduates and youths, and proposes measures to reduce the mismatches. It also suggests recommendations regarding employment prospects following the COVID-19 pandemic that can be leveraged as an option for job seekers.

¹ Excludes private expenditure in education, where the sector was liberalised in 1996.

² According to the International Labour Organisation (ILO), tertiary educated refers to graduates with diplomas and above.

³ ILO defines time-related underemployment as a situation in which a worker is employed for less than 30 hours per week.

FIGURE 1.2.2. *Employment by Education and Skills for Selected Countries, 2018*

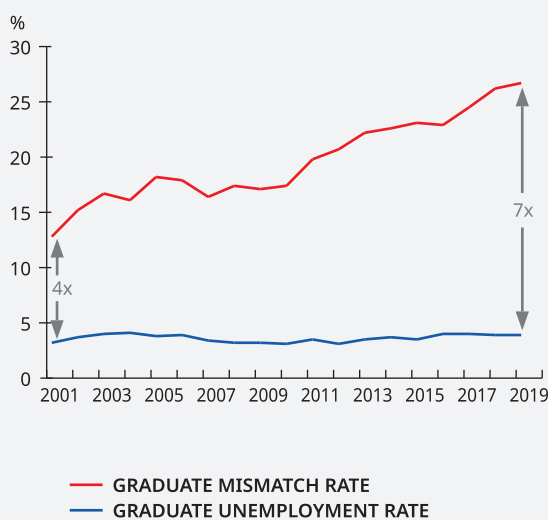
Note: Employment for population aged 15-64
Source: International Labour Organisation, 2018

Situational Analysis

Occupational analysis in Malaysia for the period 2010 to 2019 indicates the existence of the continuous phenomenon of the educated workforce being employed in the lower occupational category (Figure 1.2.3.). The scenario, which is also commonly referred to as a vertical mismatch, reflects that graduates are accepting jobs despite being overqualified.

FIGURE 1.2.3. *Employment by Education and Skills in Malaysia, 2010 – 2019*

Source: Department of Statistics and Ministry of Finance, Malaysia

FIGURE 1.2.4. *Graduate Mismatch vs Graduate Unemployment*

Source: Department of Statistics and Ministry of Finance, Malaysia

The difficulty of the workforce in finding suitable jobs that match their qualifications and skills is due to the shortcomings in the labour market capacity. The phenomenon has been ongoing for some time, thus contribute to rising graduate unemployment (Malaysia Employer's Federation, 2019). While the graduate unemployment rate remained relatively stable, between 3.1% to 4.1%, the graduate mismatch rate has more than doubled between 2001 and 2019 (Figure 1.2.4.).

The increasing rate of mismatch is a concern as more graduates are working in the semi- and low-skilled categories. The 2019 Graduates Tracer Study by Ministry of Higher Education (MOHE) also indicates that 30.6% of the respondents with tertiary education were underemployed. In the incidence of horizontal mismatch, Zakariya, Z. (2014) reveals that 52% of workers were employed in jobs that are not related to their field of study.

Reasons for Mismatch

The main contributing factor for the mismatch is due to limited jobs in the market to meet the increasing number of labour supply, including new graduates. Today, having a university degree does not guarantee a job. With the rising number of graduates every year, the labour market has become very competitive, especially when there is economic uncertainty. Consequently, the job seeker is left with no option but to accept being underemployed.

For almost a decade, there were more than three million new jobs created in the economy. However, job creation has remained concentrated in low- and semi-skilled jobs. From the total new jobs created during the period, only 26% were in the skilled category while the remaining 74% were in the low- and semi-skilled categories (Figure 1.2.5.).

As at December 2019, out of 62,400 vacancies in the market, only 5% were for skilled workforce. In contrast, from a total of 299,600 job seekers, 72% were graduates, of whom more than half were fresh graduates with less than one-year experience (Figure 1.2.6.). The 2019 Graduates Tracer Study highlights that 13.7% of graduates were still unemployed six months after completing their studies. They were mainly graduates from education; arts and humanities; as well as agriculture and veterinary.

FIGURE 1.2.5. Jobs Created by Skills

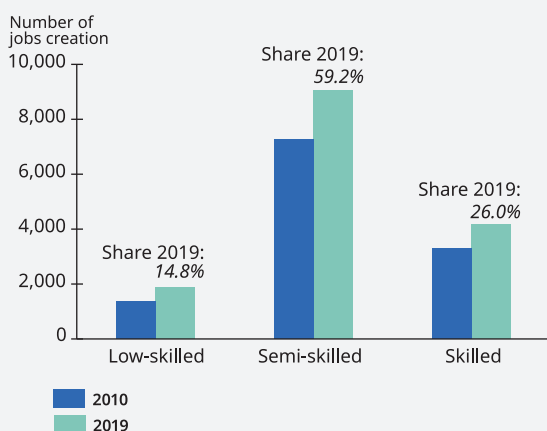


FIGURE 1.2.6. Vacancies and Job Seekers, 2019

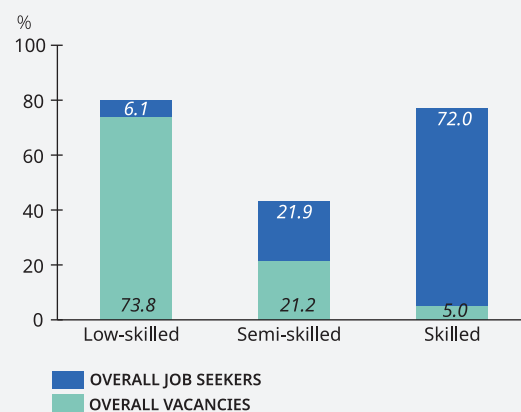
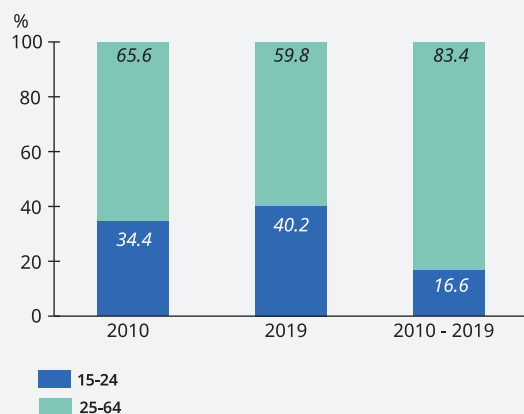


FIGURE 1.2.7. Jobs Created by Age Cohort

Source: Department of Statistics and Ministry of Finance, Malaysia

From the perspective of new jobs created by age cohort, only 16.6% of jobs created were for youths aged 15 – 24 (Figure 1.2.7.). Whereas, data on job seekers showed that 78.9%⁴ of the total active job seekers were youths. This indicates that jobs were mostly created for the adult cohort, hence the continuous double-digit youth unemployment rate in the past two decades. These scenarios also attest that there were insufficient jobs created in the market to absorb the increasing demand from job seekers, especially graduates.

Advancement of technology is another reason for the mismatch. According to Kaufman (1974), technological progress has led to skill obsolescence, where professionals lack up-to-date knowledge or skills to maintain effective

performance in their jobs. While it is true that technological changes can improve or deteriorate skills mismatch, there is significantly a greater number of ways in which such changes lead to negative implications on employment (Allen & de Grip, 2012).

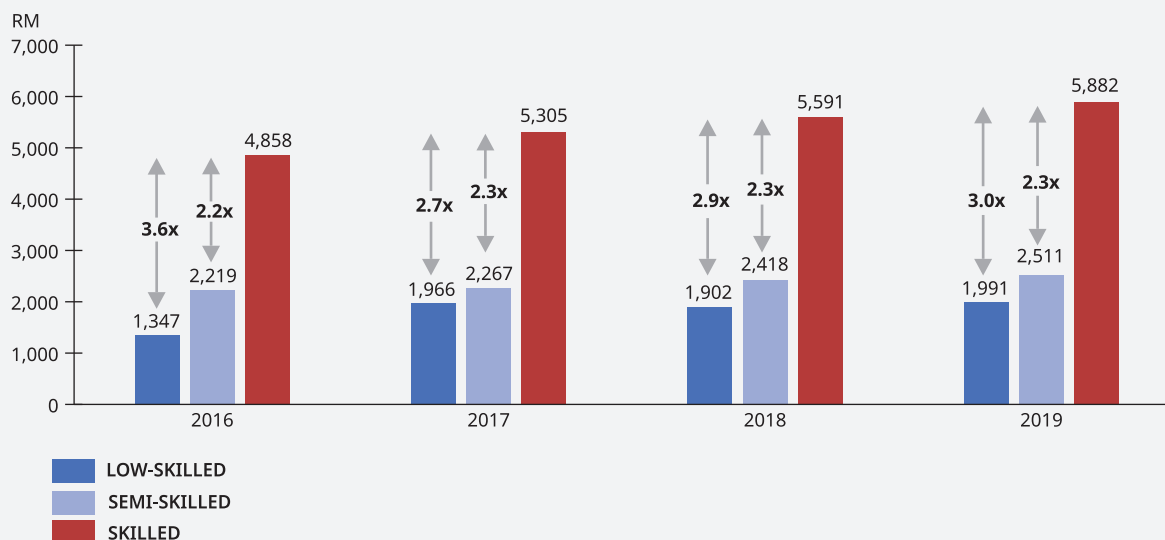
Another reason that pushes many individuals to accept mismatch and lower-quality jobs is due to the geographical factor. Employees' disposition to move to another job or position is very much linked with location and commuting issues which results in work-life balance (Direnzo et al., 2015; Lambert et al., 2005). In the case of Malaysia, Khazanah Research Institute (2018) highlights that 19% of their respondents rejected job offers due to inconvenient locations. This may be partially contributed by the increasing cost of living in urban areas that discouraged new graduates from accepting job offers, even with higher pay.

Impact of Mismatch

Skills mismatch can impact workers' well-being in several ways. It has led workers to receive a lower pay as compared to what they deserve. According to the 2019 Graduates Statistics report, salaries obtained by graduates working in the low- and semi-skilled categories were 3.0 times and 2.3 times lower than that of graduates working in the skilled category (Figure 1.2.8.). When skilled individuals work in a lower-skilled category, not only they are underpaid, their potential is under-exploited, leading to lower productivity. Labour mismatch is one factor that may contribute to cross-country differences in labour productivity.

Studies indicate that greater skills mismatch is associated with lower labour productivity through less efficient allocation of resources. Skills mismatch is also known to be correlated with low job satisfaction as a result of unequal wage-earning, underutilisation of skills and fear of job insecurity. Ogbonnaya et al. (2017) reports that overqualified employees are more likely to feel they are being tasked for more work due to their education but are given low wages. This decreases their job satisfaction.

⁴ Based on December 2019 active job seekers.

FIGURE 1.2.8. Mean Monthly Salary for Graduates by Skills Category, 2016 – 2019

Source: Department of Statistics, Malaysia

Recommendations

If Malaysia is to harness the full potential of its human capital, the persistence of skill mismatches in the labour market must be addressed. All stakeholders, including industries, learning institutions and Government agencies, need to closely collaborate to tackle the issue, both from the supply and demand-side perspectives. Labour market capacity to provide sufficient jobs is limited unless and until the production structure of industries undergoes a rapid transformation into high-end production as envisaged in the industrial master plans. In such a situation, self-employment can be a viable option for job seekers. Initiatives should be focused on generating more job creators through entrepreneurship opportunities. As entrepreneurs generally face difficulties in securing loans, financial institutions and relevant agencies may facilitate entrepreneurs applying for soft-loans or matching grants and other business support programmes.

The issue of job opportunities has gained more attention during the COVID-19 outbreak when retrenchment surged during the first half of 2020 as compared to the same period last year. As most of economic activities were not allowed during the Movement Control Order (MCO), many workers were laid off. Nevertheless, some industries had benefitted, especially online retail and delivery services. There was an increase in the number of marts and restaurants migrating to the digital platforms to facilitate the people who were unable to leave their homes while adhering to the MCO. Similarly, recruitment for food delivery workers and ride-hailing drivers also increased to cater for the spike in demand for delivery services during the MCO period. In this case, technology plays a vital role as the enabler to make online marketplaces accessible.

The COVID-19 pandemic has also brought changes to the employment landscape from traditional full-time employment to short-term and more flexible employment. Gig works have become predominantly important to the economy, and gig workers are likely to have better income prospects. A survey on the ride-hailing workers also reported that 54% of respondents indicated that gig jobs is their primary source of income (The Centre, 2019). The result has shown that online platform should be strengthened to facilitate these gig workers and online entrepreneurs.

Nevertheless, there is a strong ground for having a more comprehensive social safety net in place, especially given the growing number of gig workers. Unlike paid employees, many of the self-employed, including gig workers, are lacking access to social security protection, such as insurance benefits and pensions, and are not covered by labour legislation. There is also the potential for a transition from standard employment to business-digitalisation related activities, implying that the vulnerable workers should be provided with sufficient and structured safety net. As an immediate strategy, all self-employed, including gig workers, should make a mandatory contribution to social security protection under the Self-Employment Social Security Act 2017 [Act 789]. This will entitle them to receive assistance, especially during unprecedented economic downturns.

From the labour supply perspective, education and training institutions need to have more and closer collaboration with industries to determine the type of skills that suits companies requirement in the future. In-house assessment by individual employers is required to develop the retraining and upskilling programmes needed by their employees to minimise the mismatch. This will lead to better wages for the employees, and indirectly, can eventually address both the mismatch and low-wage issues.

Conclusion

Over the years, underemployment or mismatch continues to be persistent in the Malaysian labour market despite strategies to balance between labour supply and demand. The lack of job creation, particularly for skilled occupations, seems to be the main contributing factor to the phenomenon. A prolonged mismatch indicates that the potential of the educated workforce has not been fully optimised for economic growth, thus limiting the nation's economic potential. Self-employment or gig job opportunities should be promoted as the career of choice for job seekers, given the growing importance of the gig economy. Thus, structured and comprehensive regulations and social safety net need to be in place to safeguard the workers' well-being, especially during economic downturns.

Regional Imbalances

As Malaysia progresses towards a high-income and developed nation, the problem of regional development imbalance persists. According to the Department of Statistics Malaysia (2020), Malaysia's average GDP per capita in 2019 was RM46,450. While the more developed states continue to record above-average per capita income, the income gap among states remains. For instance, Sabah's income per capita was 45.5% below the national average, and that of Kedah and Kelantan was at 51.8% and 69.2%, respectively.

It is also reported that in 2019, Wilayah Persekutuan Kuala Lumpur and Wilayah Persekutuan Putrajaya recorded the lowest poverty rates of 0.2% and 0.4% of households,

respectively. In comparison, states such as Sabah and Kelantan recorded significantly higher poverty rates of 19.5% and 12.4%, respectively. This illustrates a pronounced disparity in economic development among states in Malaysia.

Lack of Alignment between Environmental Sustainability and Sustainable Development

Efforts to ensure environmental sustainability need to be aligned with the sustainable development agenda. Unsustainable consumption and production practices as well as lack of shared responsibility among stakeholders, continue to impact the well-

being of the *rakyat*. For example, water disruptions in the Klang Valley as a result of river pollutions in Selangor had not only social but also economic impact, affecting both the households and businesses alike. The implementation of the MCO to contain the COVID-19 pandemic has indirectly contributed to better air and water quality. Nevertheless, this situation is likely to be temporary as it will continue to be business as usual when economic activities recover. However, this situation can still be maintained if all parties were to realise and take responsibility for ensuring environmental sustainability accompanied by comprehensive enforcement action.

At the international level, Malaysia has adopted the 2030 Sustainable Development Agenda, which outlines 17 Sustainable Development Goals (SDGs). Malaysia needs to establish a comprehensive mechanism to measure and monitor the development and progress of the SDGs to ensure it covers the overall financing dimension in attaining SDGs. For example, development allocation is mainly categorised according to ministries and agencies and are more focused on projects and programmes. As such, there is a need to realign budget allocations to the SDGs to ensure the achievement of national indicators, targets and goals.

INFORMATION BOX 1.1

Mapping the UN Sustainable Development Goals onto the National Budget

Introduction

All member states of the United Nations (UN) adopted the UN 2030 Agenda for Sustainable Development (2030 Agenda) in 2015, and the 17 Sustainable Development Goals (SDGs) are to be achieved by the year 2030. The SDGs, among others, aim to end all forms of poverty, fight against inequalities, create peace, tackle urgent environmental issues and ensure that no one is left behind. The success of the global initiative requires concerted efforts by member states to ensure that related plans, programmes and projects at national levels are geared towards achieving these goals within the stipulated timeline.

Sustainable and inclusive development has always been the mainstay of Malaysia's development since the 1970s. Economic growth has always been emphasised by the Government. At the same time, various initiatives have been implemented to eradicate poverty, improve the well-being of the people, provide universal access to education and health and protect the environment. The Eleventh Malaysia Plan, 2016 – 2020 (11MP), continued to pursue sustainable development based on three main goals, namely achieving a high-income economy, promoting inclusivity and ensuring sustainability. In line with the 2030 Agenda, all the SDGs were subsequently incorporated into all initiatives under the 11MP to ensure alignment between national objectives and SDGs as well as for sufficient resource allocation and proper monitoring. As the implementation of various programmes and projects will be supported by the annual allocation, this article highlights the efforts taken by Malaysia towards mapping the SDGs in the annual budget (Figure 1.1.1.).

FIGURE 1.1.1. Sustainable Development Goals



Source: United Nations, 2015

National Budgetary Process

The 2015 UN Addis Ababa Action Agenda (Action Agenda) provides a global framework for financing sustainable development, which supports the implementation of the 2030 Agenda, including the SDGs. The Action Agenda aligns all domestic and international resource flows, policies and international agreements with economic, social and environmental priorities. The specific action areas of the Action Agenda are:

- Domestic public resources;
- Domestic and international private business and finance;
- International development cooperation;
- International trade as an engine for development;
- Debt and debt sustainability;
- Addressing systemic issues; and
- Science, technology, innovation and capacity building.

With the SDGs fully aligned to the initiatives and targets of the 11MP, development expenditure (DE) has been allocated to support both national objectives and the SDGs. However, for the annual budget allocation, a mechanism has yet to be established to monitor the progress of the allocations to support the SDGs comprehensively and more frequently. The 2021 Budget will be the base to align its annual budget to the SDGs, beginning with the DE's allocation.

At the Federal level, the yearly budget is determined through several processes involving engagement with ministries and central agencies such as the Economic Planning Unit. These include dissemination of guidelines in preparing the estimated budget for the following year to all ministries and agencies, receipt of proposals from all ministries and agencies by the Ministry of Finance, followed by budget screening by respective budget review officers. The next process involves approval by the Cabinet before presentation and debate in Parliament. After the budget is approved by Parliament and consented by Seri Paduka Baginda Yang di-Pertuan Agong, the General Warrant is issued. This allows expenditures in the budget to be spent on various programmes and projects.

Mapping the SDGs onto the Programmes and Projects in the Annual Budget

There are many ways in which countries adopt the SDGs into their national budgeting process. According to Hege & Brimont (2018), there are four approaches to achieve this: improving the budget proposal narrative; mapping and tracking the budgetary contribution to the SDGs; using SDGs as a management tool for negotiations; and improving budget performance evaluation. This article focuses on mapping Malaysia's annual budget through the lens of the SDGs as an initial effort to improve its alignment to the SDG financing for development framework.

At this juncture, the *ex post* mapping exercise is focused on the actual spending on all development projects for two ministries, the Ministry of Energy and Natural Resources (KeTSA) and the Ministry of Environment and Water (KASA) for budget year 2019¹ in comparison with that for the Ministry of Energy, Green Technology and Water (KeTTHA) and the Ministry of Natural Resources and Environment (NRE) for budget year 2015². In terms of methodology, each project was first assigned to the respective SDGs. For example, the project of upgrading of the Congok Dam in Mersing in 2019 was aimed at resolving water woes in the area. Therefore, its DE was classified as supporting SDG6, which is to attain Clean Water and Sanitation. However, the main challenge arises if a project could support the attainment of more than one SDG. For example, the project of management and conservation of forest reserve can contribute towards attaining two SDGs, namely SDG13 on Climate Action and SDG15 on Life on Land.

There were 361 projects worth RM3.2 billion in 2019 under the responsibility of the two ministries, compared with 272 projects worth RM2.9 billion in 2015. As the two ministries are mainly responsible for the sustainability, the DE of the ministries would naturally support the SDGs directly related to sustainable energy, utilities, environment and natural resources. So, it is not surprising that almost 90% of their DE supported SDGs 6, 7, 11 and 13 for both years. However, expenditure on four SDGs which were directly under the purview of the ministries was relatively lower compared to the SDGs of 6, 7, 11 and 13. The another four SDGs are Responsible Consumption and Production (SDG12), Life Below Water (SDG14), Life on Land (SDG15) and Partnerships for the Goals (SDG17). It is interesting to note that DE allocation for the two ministries was provided, albeit in smaller magnitudes, to other SDGs not directly related to sustainability. This proves that the SDGs are very much inter-related with each other and should not be treated in a silo. Therefore, there is still room for improvement in mapping SDGs covering all ministries and the private sector (Table 1.1.1. and Figure 1.1.2.).

¹ Year 2019 was chosen to reflect the most recent actual year of expenditure.

² Year 2015 was chosen as the base reference year when 2030 Agenda was first signed by all countries. The portfolios for KeTTHA and NRE were reassigned to KASA and KeTSA, respectively.

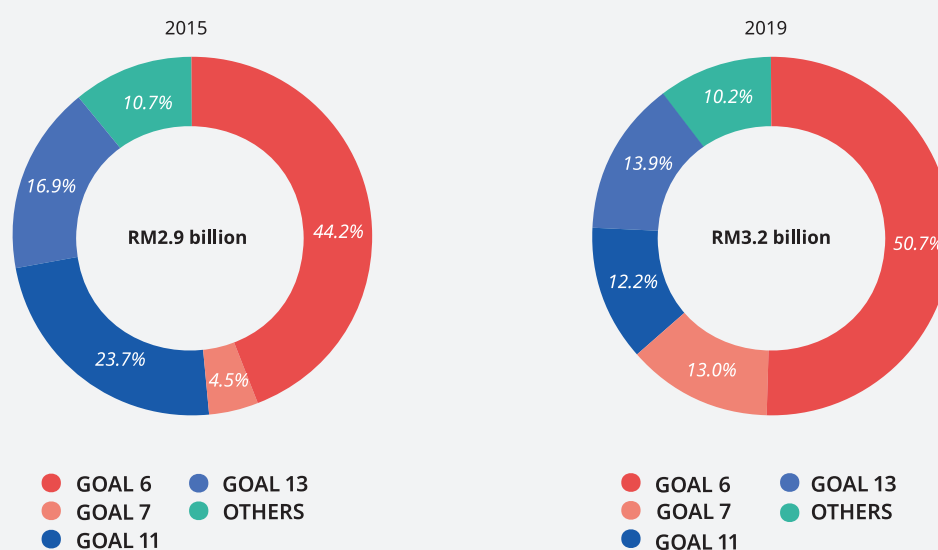
TABLE 1.1.2. *Development Expenditure for KeTTHA and NRE in 2015, and for KASA and KeTSA in 2019 by SDG*

SUSTAINABLE DEVELOPMENT GOAL		2015		2019	
		RM MILLION	% TOTAL	RM MILLION	% TOTAL
Goal 1	No Poverty	0.00	0.00	0.00	0.00
Goal 2	Zero Hunger	0.00	0.00	0.00	0.00
Goal 3	Good Health and Well-Being	2.03	0.10	0.03	0.00
Goal 4	Quality Education	0.25	0.00	2.86	0.10
Goal 5	Gender Equality	0.00	0.00	0.00	0.00
Goal 6	Clean Water and Sanitation	1,303.45	44.20	1,608.68	50.70
Goal 7	Affordable and Clean Energy	132.20	4.50	411.16	13.00
Goal 8	Decent Work and Economic Growth	0.38	0.00	2.30	0.10
Goal 9	Industry, Innovation and Infrastructure	51.86	1.80	39.89	1.30
Goal 10	Reduced Inequalities	0.00	0.00	0.00	0.00
Goal 11	Sustainable Cities and Communities	697.32	23.70	385.50	12.20
Goal 12	Responsible Consumption and Production	29.04	1.00	117.42	3.70
Goal 13	Climate Action	496.55	16.90	441.45	13.90
Goal 14	Life Below Water	35.08	1.20	7.12	0.20
Goal 15	Life on Land	52.20	1.80	87.75	2.80
Goal 16	Peace, Justice and Strong Institutions	12.65	0.40	31.32	1.00
Goal 17	Partnerships for the Goals	133.09	4.50	35.66	1.10
Total		2,946.08	100.00	3,171.13	100.00

Note: 1 DE for projects contributing to more than one SDG is divided equally *ex post* with the number of respective SDGs

2 Total may not add up due to rounding

Source: Ministry of Finance, Malaysia

FIGURE 1.1.2. *Development Expenditure for KeTTHA and NRE in 2015 and for KASA and KeTSA in 2019 by SDG*

Source: Ministry of Finance, Malaysia

Moving Forward

The *ex post* mapping of DE to the respective SDGs in the annual budget of the two ministries is just a beginning. The next step is to replicate the same exercise across all ministries, where the final aim is to identify gaps in the implementation of the SDGs. This can then be a useful guide to fill the gap from various sources of financing. The methodology of ascertaining *ex post* which programme or project supports which SDG needs to be further refined. In addition, the mapping of the DE to various SDGs needs to be further improved by central agencies and ministries, especially in cases where programmes and projects support more than one SDG. For effective monitoring, the respective public project monitoring systems will have to be enhanced to allow *ex ante* SDG tagging codes on all programmes and projects. Thus, at the start of the budgeting process, each programme and project proposal will have its own SDG tag which allows subsequent *ex post* classification easier. In addition, efforts to increase awareness of SDG-aligned budgeting process and enhance capacity building among public servants to embed SDGs in their budget considerations will be necessary.

Conclusion

As Malaysia has taken on board the main elements of the sustainability and inclusivity in its development strategies since the 1970s, embedding the SDGs in its development planning process was an easier task. However, continuous efforts need to be undertaken including establishing a comprehensive financing framework that encompasses various forms of financing and meet the needs of stakeholders to ensure fair and equitable resources are allocated, overlaps are minimised, and gaps are addressed towards the attainment of the SDGs. While Malaysia's five-year development plans have now been fully aligned to the SDGs, efforts are underway to ensure its annual budget will also be so. In addition, there is clearly room for other stakeholders, especially the private sector and non-governmental organisations to be contributors to SDG-related initiatives. Efforts are also in place to establish appropriate mechanisms to enable more of such financing.

Rising Cost of Living

Achieving a developed, high-income, and an inclusive nation must be accompanied with higher purchasing power. Unfortunately, the rising cost of living remains a critical concern among the *rakyat*, particularly the low-income group. From 2016 to 2019, the Consumer Price Index rose by 1.8% while the median household income increased by 3.9%. The World Bank (2019) reports that although the median income continued to outpace inflation, the income growth for low-income Malaysians slowed between 2014 and 2016. The report also highlights the disparity in purchasing power of households in different parts of the country. Poor financial planning, growth

in household indebtedness and unaffordable housing are among the key factors affecting the cost of living. Furthermore, the mean income of the top 20% (T20) and the bottom 40% (B40) of households widened from RM8,679 in 2009 to RM15,354 in 2019. This signifies the widening of the income gap between the two groups.

Insufficient Affordable Housing

By any standards, home ownership in Malaysia can be considered high at 76.9% of households in 2019. Nevertheless, affordable housing remains a concern despite various affordable housing programmes being implemented,

complemented by the provision of financing facilities for affordable housing as well as rental and rent-to-own housing programmes. Khazanah Research Institute (2019) reported that the median multiple¹ affordability for Malaysia increased from 4.1 to 5.0 from 2002 to 2016. According to the World Bank (2019), the median multiple of more than 3.0 is considered unaffordable. This indicates that house prices in Malaysia are generally

unaffordable, mainly due to house prices rising faster than income growth. The median house price from 2012 to 2014 rose at a compound annual growth rate of 23.5%, while the median household income expanded significantly slower at 11.7% (Khazanah Research Institute, 2019). Since 2014, house prices have moderated following the measures undertaken by the Government. However, houses remain unaffordable for the majority of the *rakyat*.

FEATURE ARTICLE 1.3

Assessing Housing Affordability in Malaysia

Introduction

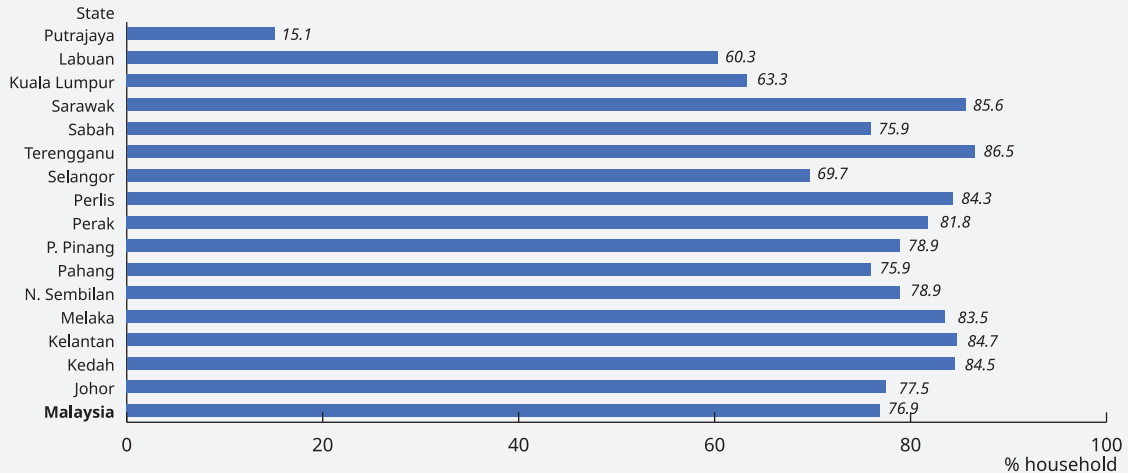
Home ownership continues to be a concern for most of the *rakyat*, particularly those in the B40 and lower M40 households. The Government has undertaken various efforts to ensure greater home ownership for the *rakyat*, particularly the lower-income group through various affordable housing programmes. Affordable housing can be defined as the provision of adequate homes that meets the needs of the people in terms of quality and location as well as reasonably priced, whereby house buyers will still have discretionary income to purchase other basic necessities (UN-Habitat, 2011). This article analyses housing affordability in Malaysia based on the 2019 Household Income and Basic Amenities Survey (HIS & BA).

Home Ownership and Trends of Household Income and House Prices in Malaysia

Based on the HIS & BA report, home ownership has marginally improved between 2016 and 2019. In 2019, 76.9% of households owned their homes compared to 76.3% in 2016. At this rate, home ownership in Malaysia can be considered as high by any standards, especially when Malaysia does not have a universal home ownership policy (Figure 1.3.1.). In this regard, Malaysia compares well with other advanced countries such as Canada at 66.3%, US (65.3%), UK (65.2%) and South Korea (56.8%).

Nevertheless, there is some disparity in home ownership among states in Malaysia. States with high ownership of above 84% include Terengganu, Sarawak, Kelantan, Kedah and Perlis. However, home ownership was lower than 76% in Labuan, Kuala Lumpur, Selangor, Sabah and Pahang.

¹ Median multiple, also known as house-price-to-income ratio, is the ratio of the median house price by the median annual gross household income.

FIGURE 1.3.1. Home Ownership in Malaysia by States, 2019

Regarding the trend of house prices and household incomes, it is evident that prices of houses rose slower at 3.4% on average than that of household incomes at 5.2% during the period of 2001 – 2009 (Figure 1.3.2.). However, house prices rose in double digits by 11.8% compared to household income at 9.9% during the period of 2011 – 2013. The drastic increase during the period has generally rendered many types of houses unaffordable to many segments of the people. To address the drastic increase in house prices, the Government instituted several measures to manage both the demand and supply of houses. Subsequently, the impact of these measures can be seen from the slower rise in house prices at 6% for the period of 2014 – 2019, slightly lower than the rate of increase in household income at 6.3% on average.

FIGURE 1.3.2. The Trend of House Prices and Household Income, 2000 – 2019

Source: Department of Statistics and National Property Information Centre, Valuation and Property Service Department, Malaysia

Measurement of Affordability

In assessing home affordability, policy makers and researchers have relied on short-term measures such as the median¹ multiple ratio which compares house prices with current incomes. This article applies a similar model. Based on the definition by the World Bank, a home is considered affordable if the median multiple score is 3.0 or less (Table 1.3.1.). It is considered moderately unaffordable for scores of between 3.1 and 4.0, seriously unaffordable (4.1 to 5.0) and severely unaffordable (5.1 and above).

TABLE 1.3.1. Housing Affordability Median Multiple Score

SCORE ²	DESCRIPTION
3.0 or less	Affordable
3.1 – 4.0	Moderately unaffordable
4.1 – 5.0	Seriously unaffordable
5.1 and above	Severely unaffordable

Source: Global Platform for Sustainable Cities (2019), World Bank

Home affordability has generally improved in Malaysia in the last few years. The overall median house price had fallen by 1% annually on average from RM298,000 in 2016 to RM289,646 in 2019 (Table 1.3.2.). During the same period, the annual median household income had risen by 4% annually from RM62,736 in 2016 to RM70,476 in 2019. Thus, the median multiple score dropped to 4.1 in 2019 compared to 4.8 in 2016. Although it has gradually decreased, the 2019 ratio implies that homes remained seriously unaffordable in general. Nevertheless, the median multiple score may differ across income groups, types of property and states.

Home Affordability by States

It is interesting to note that home affordability has generally improved even at the state level between 2016 and 2019. In 2016, homes in five states (Putrajaya, Sabah, Kelantan, Pulau Pinang and Pahang) were considered severely unaffordable. By 2019, homes in only two states (Sabah and Sarawak) remained so. Likewise, in 2016 homes in nine states were considered seriously unaffordable, but by 2019 homes in only four states were in the same category. Houses in eight states were considered moderately unaffordable in 2019 compared to just two states in 2016. While there were no states categorised as affordable based on the median multiple scores in 2016, houses in two states (Melaka and Putrajaya) were considered affordable in 2019.

A further analysis was conducted on the affordability of homes for the B40 group to own three types of residential houses, namely low-cost flats³, low-cost houses and flats⁴ across states. The same analysis was conducted on the affordability of the M40 group to own flats, condominiums or apartments and terrace houses. The selection of states for the analysis is based on the following criteria: the highest median house price (Kuala Lumpur), the highest median multiple score (Sabah) and the most populous state (Selangor).

¹ The median statistic is preferred over the mean as household incomes and house prices variables are typically skewed to the right (positive skewness) such that their mean are typically above their median, thus not representing the population.

² Median multiple score = Median price of houses / Median annual household incomes

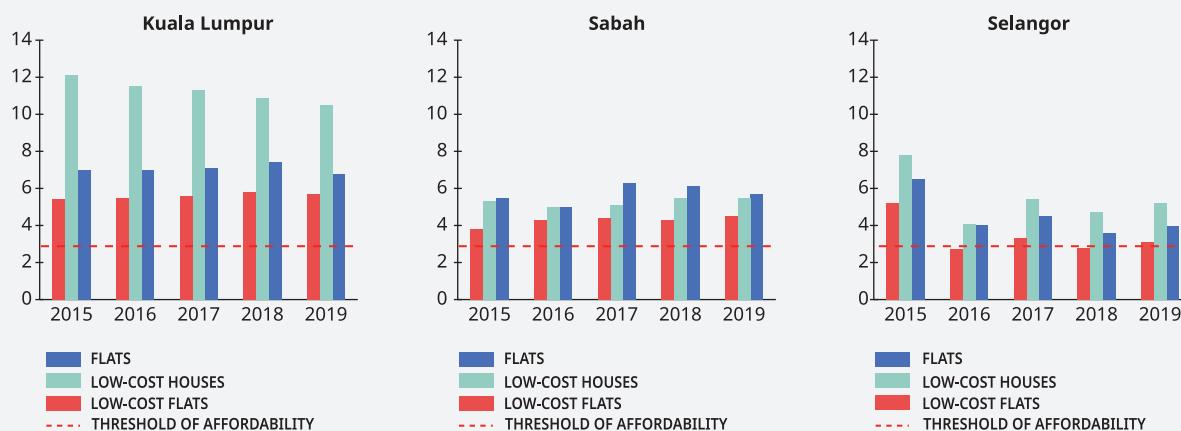
³ Refers to an affordable housing unit that is self-contained but is part of a larger building with larger units and is low-priced.

⁴ Refers to an affordable housing unit that is self-contained but is part of a larger building with larger units and is priced lower than condominiums or apartments.

TABLE 1.3.2. *Housing Median Multiple Score by States, 2016 and 2019*

STATE	MEDIAN HOUSE PRICE		MEDIAN INCOME ¹		MEDIAN MULTIPLE SCORE		LEVEL OF AFFORDABILITY 2019
	2016	2019	2016	2019	2016	2019	
Malaysia	298,000	289,646	62,736	70,476	4.8	4.1	Seriously unaffordable
Johor	330,000	350,000	67,818	77,124	4.9	4.5	Seriously unaffordable
Kedah	196,000	199,100	45,726	51,900	4.3	3.8	Moderately unaffordable
Kelantan	199,900	210,000	36,944	42,756	5.4	4.9	Seriously unaffordable
Melaka	205,000	200,000	67,061	72,648	3.1	2.8	Affordable
Negeri Sembilan	270,000	206,750	54,950	60,060	4.9	3.4	Moderately unaffordable
Pahang	239,000	218,000	47,752	53,280	5.0	4.1	Seriously unaffordable
Pulau Pinang	350,000	285,000	64,909	74,028	5.4	3.8	Moderately unaffordable
Perak	218,800	216,600	48,072	51,276	4.6	4.2	Seriously unaffordable
Perlis	227,000	220,000	50,444	55,128	4.5	4.0	Moderately unaffordable
Selangor	405,000	380,000	86,695	98,520	4.7	3.9	Moderately unaffordable
Terengganu	278,000	255,000	56,330	66,540	4.9	3.8	Moderately unaffordable
Sabah	278,000	300,000	49,325	50,820	5.6	5.9	Severely unaffordable
Sarawak	230,000	313,000	49,960	54,528	4.6	5.7	Severely unaffordable
Kuala Lumpur	520,000	480,000	108,874	126,588	4.8	3.8	Moderately unaffordable
Labuan	240,000	320,000	71,138	80,712	3.4	4.0	Moderately unaffordable
Putrajaya	738,650	260,000	99,300	119,796	7.4	2.2	Affordable

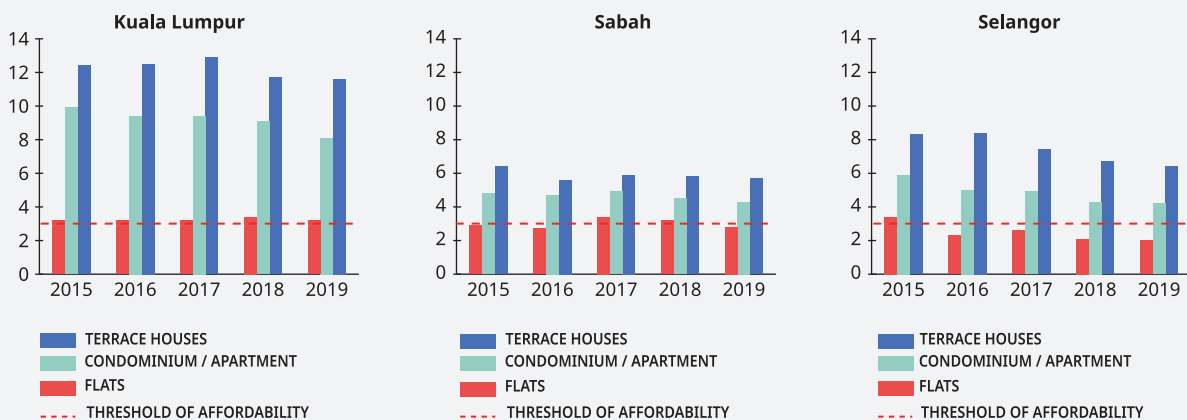
Note: ¹ Annual median household income is calculated based on monthly median household income multiplied by 12 months based on data from the Department of Statistics Malaysia, 2019
Source: Ministry of Finance, Malaysia (estimate)

FIGURE 1.3.3. *Median Multiple Scores for B40 by Types of Houses in the Selected States, 2015 – 2019*

Source: Ministry of Finance, Malaysia (estimate)

Based on the analysis, it was observed that during the period of 2015 – 2019, the B40 group in Kuala Lumpur has been facing severe unaffordability issue for all three types of housing properties (Figure 1.3.3.). In fact, the median multiple scores for all types of properties remained high above 5.0 throughout the period. Similarly, in Sabah, the B40 group faced similar affordability issue with owning the same types of properties over the same period. However, the severity of unaffordability in Sabah was not as severe as in Kuala Lumpur. Selangor has resolved the issue of unaffordability for the B40 group with low-cost flats since 2016. Nevertheless, the B40 group would find it challenging to upgrade to the other types of housing properties in the state.

FIGURE 1.3.4. Median Multiple Score for M40 by Types of Houses in the Selected States, 2015 – 2019



Source: Ministry of Finance, Malaysia (estimate)

The issue of housing unaffordability remained severe among the M40 in the three states during the period of 2015 – 2019 (Figure 1.3.4.). In Kuala Lumpur, the M40 could only afford flats. However, they were not qualified to do so under the public low-cost housing programmes. Even worse, the other two types of properties were beyond their affordability as the median multiple scores for condominiums or apartments and terrace houses were 8.0 and above. The situation in both Sabah and Selangor was similar to Kuala Lumpur. However, the severity of the unaffordability was not as extreme as that in the nation's capital. The M40 in both states could only afford low-cost flats but still could not upgrade to the other two types of properties.

Based on this evidence, it is observed that some states are facing greater challenges in housing the rakyat. The Government remains committed to addressing home accessibility and affordability issues. Through collaboration with the private sector since 2000, various public housing programmes were implemented to meet the needs of the different segments of the society, particularly the M40 and B40 groups. Among the programmes include 1Malaysia Housing Programme (PR1MA), 1Malaysia Civil Servants Housing Programme (PPAM), MyFirst Home Scheme and MyHome Scheme.

Conclusion

The provision of affordable housing to the rakyat is vital to ensure their well-being. The Government has provided various programmes aimed at assisting the low and lower-middle income groups in owning affordable houses. However, as the issue continues to persist, especially among the middle- and lower-income groups across the states, more effective and efficient delivery of these programmes is imperative. Thus, alternative models of social housing programmes should be considered, taking into account new ownership models and innovative ways of financing and pricing mechanisms.

Lack of Digital Adoption

The World Bank (2018) reports that although 62% of businesses in Malaysia were connected to the internet and 46% subscribed to fixed broadband, only 18% have a web presence for e-commerce. This indicates that the potential of the digital economy has yet to be fully leveraged. The adoption of digital technology in businesses is dominated by large companies, particularly in the manufacturing sector. This also signifies a significant digital gap between large companies and SMEs and between the manufacturing and other sectors. According to SME Corporation Malaysia (2018) and Bank Negara Malaysia (2019), the lack of know-how and funding are the key challenges to greater digitalisation of SMEs. Other factors contributing to the gap include the slow adoption rate and low coverage of fixed broadband services as well as limitation in financial and human capital (Bank Negara Malaysia, 2019).

Limitation in the Logistics Sector

The logistics industry, which includes transportation and storage, accounted for 3.8% of GDP in 2019 and is a crucial enabler for economic development. According to the Logistics Performance Index (LPI), in 2016, Malaysia was ranked at 32nd position out of 160 countries and dropped to 41st in 2018 (World Bank, 2018). Malaysia scored lower in all critical dimensions of the LPI, namely customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing, and timeliness. As the industry is highly integrated across various sectors, poor logistics services hinder trade efficiency and thus, impact economic development.

Strategic Initiatives – 2021 Budget

Given the issues and challenges, the 2021 Budget strives to strike a balance between addressing the immediate needs of the people and businesses, laying the foundation for a sustainable recovery and meeting the long-term aspiration of the nation. As 2021 is the first year of the 12MP, the strategic measures in the 2021 Budget will support the overarching aim of the Plan. The Budget emphasises four broad areas - caring for the people, steering the economy, ensuring sustainable living and enhancing public service delivery.

Caring for the People

With the impact of the pandemic lingering in 2021, the well-being of the people remains the priority of the Government. In the 2021 Budget, efforts will be streamlined towards addressing employment issues, enhancing social safety net and strengthening human capital. Measures will also be formulated to facilitate the upward mobility of the people. The Government will continue to engage various stakeholders, including the private sector and civil society as development partners in nation-building.

In the effort to achieve upward mobility, the focus will be on enhancing reskilling and upskilling programmes. These include, among others, providing coordinated training programmes and improving existing courses to meet the demand of industries and prepare for challenges of the Industrial Revolution 4.0 (IR4.0). In addition, the education system will be enhanced to facilitate online learning. School curriculums will also place greater emphasis on living skills such as entrepreneurship and social skills.

INFORMATION BOX 1.2

Social Safety Net in Malaysia

Introduction

Social safety net is described as non-contributory transfers targeted in some ways to the poor and vulnerable to address chronic poverty and inequality, help the poor invest in developing human capital, and protect the poor and vulnerable from individual and systemic shocks, including during economic reforms (IEG – World Bank, 2011). In the context of Malaysia, it is a collection of programmes designed to protect the livelihood and well-being of the poor and vulnerable. It entails programmes such as welfare assistance, cost of living assistance, unemployment benefits, workers' compensation, subsidised healthcare and education as well as low-cost housing. Based on Paitoonpong et al. (2008), the safety net analogy is drawn from high-wire walkers who are protected by a safety net if they fall. The net prevents any walker who falls, whether unexpectedly or otherwise, from hitting the floor and incurring injuries.

Based on the 2019 Household Income and Basic Amenities Survey, 5.6% of Malaysian households are considered poor at Poverty Line Income (PLI) monthly threshold of RM2,208 (Department of Statistics of Malaysia, 2020). However, unlike many other countries, the PLI in Malaysia measures the minimum income required to maintain a certain quality of life taking into consideration the optimum healthy food intake requirements and access to basic necessities for non-food items. The social safety net in Malaysia may not be as cohesive as that of advanced countries. However, Malaysians are provided with various social support programmes such as cash transfers, subsidised healthcare, education, transport and housing. This article focuses on the social safety net in Malaysia and makes recommendations for improvement.

Social Safety Net Programmes

In 2019, the Government spent a total of RM26.6 billion¹ (Figure 1.2.1.) or 1.8% of gross domestic product (GDP) for various social safety net programmes. The largest portion amounting to RM14 billion (52.6% of the total assistance) was allocated to minimise the impact of the rising cost of living and improve the welfare of the *rakyat*, particularly the poor and vulnerable. These include subsidies for cooking oil; liquefied petroleum gas (LPG), diesel and petrol; electricity; and flour. Other assistances include the Cost of Living Aid (BSH) as well as allowances and cash transfers to the people with disabilities, aged, and the poor as well as children without guardians and Orang Asli groups. These assistances are necessary as the rising cost of living continues to be a main concern for most of the *rakyat*, particularly the poor and vulnerable.

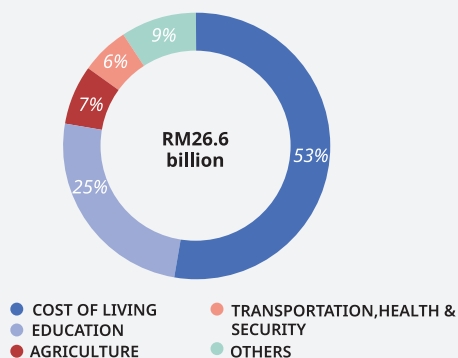
As education is an essential enabler for social mobility and human capital development, the second-largest amount, RM6.7 billion (25.3%), was allocated for this sector. This includes programmes on food, textbooks and other assistance for school and pre-school children as well as matriculation and higher education students. Other assistances include various scholarships and loans for school and university students.

Agriculture is a priority sector, not only due to its linkages to the rest of the economy but also a disproportionate share of B40 households are in this sector. Hence, this sector is a significant beneficiary of assistances amounting to approximately RM1.9 billion (7.2%). Farmers and fishermen are among the beneficiaries through various programmes including paddy price and fertiliser subsidies, paddy production incentives, monsoon season assistances and oil palm re-planting as well as the implementation of Malaysian Sustainable Palm Oil (MSPO) certification. In addition, fishermen receive fish catch incentives.

¹ Including assistances provided under development expenditure as well as supplies and services for social safety net programmes.

Assistances were also provided to transportation, health and security sectors amounting to RM1.6 billion (6.0%) to ensure access to quality and affordable services. These include toll compensation as well as subsidies in the transportation sector for RapidKL's unlimited-ride monthly pass, Keretapi Tanah Melayu Berhad's uneconomic train subsidy and rural air services in Sabah and Sarawak. Subsidies to the health sector cover Skim Peduli Kesihatan for the B40 group (PeKa B40) and medical treatment for retirees. Other assistances amounting to RM2.4 billion (9.0%) include interest rate subsidies to help reduce the costs of borrowing for students at institutions of higher learning as well as assistance for community and religious affairs.

FIGURE 1.2.1. *Percentage of Federal Government Expenditure on Social Safety Net by Categories of Assistance in 2019*



Source: Ministry of Finance, Malaysia

Additional Social Safety Net Programmes during COVID-19 Pandemic

The nation was severely impacted as a result of the COVID-19 pandemic and the subsequent implementation of the Movement Control Order (MCO). Businesses were badly hit while unemployment rose. As more people became vulnerable, the Government had to cast a more comprehensive safety net to support them. Hence, the Government announced several economic stimulus packages to protect lives and livelihoods.

Under the Prihatin Rakyat Economic Stimulus Package (PRIHATIN) and the PRIHATIN PLUS announced in March and April 2020, various one-off assistances were provided to households

to ease their financial burden. This includes cash transfers, benefitting around 5 million households. Cash transfers were also provided to single individuals aged 21 and above with monthly income of not more than RM4,000. In addition, a one-off cash aid of RM200 per person was provided to students at institutions of higher learning with an estimated cost of RM270 million and RM500 per person to 120,000 full-time e-hailing drivers with an allocation of RM60 million.

Under the same package, a wage subsidy programme was also implemented to encourage the retention of workers earning less than RM4,000 and employers experiencing more than 50% decrease in their income since 1 January 2020. These subsidies enable employers to be flexible in retaining the workers during the movement control period. The programme involved an allocation amounting to RM13.8 billion, benefitting approximately 4.8 million workers. This has contributed to the moderation of the unemployment rate to 4.7% in August 2020 as compared to 5.3% in May 2020.

With the resumption of economic activities, the Government announced the *Pelan Jana Semula Ekonomi Negara* (PENJANA) in June 2020 to accelerate economic recovery. As a result of the MCO, people's movements were restricted, spurring the demand for on-line transactions. Hence, many individuals and households engaged in the gig economy, including deliveries, e-hailing and remote or mobile businesses. The stimulus package, among others, provides additional social protection and training for gig workers. A total of 30,000 gig workers are expected to benefit from the programme, involving an allocation of RM75 million. Furthermore, a total of RM200 million was allocated to ease the burden of working parents during the Conditional Movement Control Order (CMCO) through subsidised child care expenses.

The Government also announced the PRIHATIN Supplementary Initiative Package (KITA PRIHATIN) package in September 2020 amounting to RM10 billion. A total of RM7 billion was allocated for Bantuan Prihatin Nasional 2.0, and another RM3 billion for Wage Subsidy Programme 2.0 and *Geran Khas* PRIHATIN. This package aims at providing continued support for the people, ensuring employment and assisting businesses, particularly the SMEs, in enduring the challenges faced as a result of the pandemic.

Strengthening and Sustaining Livelihood of the People

Based on an improved methodology, the PLI has been increased from RM980 in 2016 to RM2,208 in 2019 (Department of Statistics of Malaysia, 2020). Under the new PLI, the number of households categorised as poor increased to 405,441 households compared with 24,700 households in 2016 which was based on the PLI 2005 methodology. As more households are considered poor, greater financial resources are required to provide the necessary support. As the existing assistance mechanism involves various ministries and agencies, there is a need to establish an integrated database for effective distribution of assistances.

The integrated database will be used for the identification and registration of beneficiaries, effective disbursement and monitoring of programmes and prevent duplication of assistances and exclusion of eligible recipients. Furthermore, the reactivation of the Malaysia Social Protection Council (MySPC) chaired by the Prime Minister will review existing social protection policies and programmes. This would further enhance the social safety net in Malaysia and provide an exit mechanism to reduce over-dependence on Government assistance except for welfare cases.

Conclusion

The Government provides various assistance to the *rakyat*, particularly to the poor and vulnerable but assistance cuts across many ministries and agencies. Thus, an effective and efficient integrated delivery system is needed. The private sector, non-governmental organisations and other stakeholders have an important role in complementing the Government in ensuring that no one is left behind in the national development agenda.

The Government will continue to focus on addressing the needs of the vulnerable group, particularly the B40. In this respect, the Malaysia Social Protection Council was reactivated to coordinate and integrate all social welfare programmes. Thus, the overall mechanism in delivering assistances to target groups will be improved.

Steering the Economy

As Malaysia recovers from the impact of the COVID-19, the economy must return to a more sustainable growth path. The focus will be on increasing foreign direct investment (FDI), enhancing productivity and re-instilling consumer confidence. As such, the Government will prioritise essential areas, such as improving the ease of doing business,

enhancing the usage of technology and digitalisation across public and private sectors as well as ensuring a stable labour market. Various initiatives will be formulated to provide a more conducive environment for businesses and FDI to thrive.

The 2021 Budget will also introduce measures to increase productivity by enhancing the adoption of technology across the board, including individuals, SMEs and corporates. Efforts will focus on the development of resilient SMEs. As the backbone of the economy, the challenges faced by SMEs during the COVID-19 pandemic signifies the need for adoption and adaptation of new business approaches. The Government will continue to provide the necessary support for SMEs to prosper in the new environment, including the potential for going global.

Ensuring Sustainable Living

As part of the efforts to improve sustainable living, the Government will continue to protect the environment and manage biodiversity more sustainably. A closer collaboration with the respective non-governmental organisations (NGOs) and civil society organisations (CSOs) will be forged and enhanced towards ensuring a more comprehensive and holistic management of the environment and natural resources. In the 2021 Budget, the Government will encourage behavioural shift among the *rakyat* and businesses towards better management of environment and biodiversity. In addressing the needs for achieving the SDGs, programmes and initiatives will be in line with the 12MP, particularly in terms of allocation for sustainable development. Beginning in 2021, the Government will focus on mapping the financing needs in achieving the SDGs.

Enhancing Public Service Delivery

The role of the public service is crucial in ensuring the development of the nation. Hence, the quality of services will determine whether the goals and outcomes of all plans and programmes formulated are achieved accordingly. As part of the efforts to enhance public service delivery, the Government aims to be more outcome-driven and implementation-focused as well as support the people and businesses in a more targeted manner.

The 2021 Budget will focus on enhancing the existing delivery mechanisms in ensuring all assistances and incentives benefit the target groups. In this respect, the National Economic Stimulus Implementation and Inter Agency Coordination Unit (LAKSANA) has been established to monitor the implementation of measures announced in the various economic stimulus packages. LAKSANA also partners with other stakeholders to further improve the effectiveness of the programmes. Moving forward, the Government will review existing enterprise architecture across all Government agencies to sync with the IR4.0. The Government will also collaborate with NGOs and CSOs as development partners in various areas, including forestry, biodiversity, poverty and other social issues.

Conclusion

On the back of the COVID-19 pandemic, the Malaysian economy contracted by 8.3% in the first half of 2020. The economy is projected to improve in the second half and, thus, record an overall smaller contraction of 4.5%. In 2021, the economy is projected to expand between 6.5% and 7.5% in tandem with the anticipated improvement in global trade, consumer sentiments and business confidence. The 2021 Budget will implement measures to enhance the well-being of the people, steer the economy towards a sustainable growth path, enable sustainable living and improve public service delivery. As targeted in the 12MP and the 2030 Shared Prosperity Vision, the Budget will lay the foundation for the country to progress towards a developed and inclusive nation.

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