Rebasing of the Malaysian GDP from Base Year 2005 to 2010 Prices

With effect from 1Q 2015, Malaysia's Gross Domestic Product (GDP) in constant terms is rebased to 2010 prices from 2005 prices. This rebasing exercise by the Department of Statistics, Malaysia (DOSM) also reflects the enhancement of data sources and coverage, as well as the incorporation of the latest international guidelines for statistical compilations[1]. These improvements will enhance the quality and comparability of Malaysia's GDP statistics, and ensure that they better represent the current structure of the Malaysian economy.

Purpose of Rebasing Exercise

The practice of rebasing GDP is a standard exercise by statistical agencies worldwide. Other countries, including the euro area, South Korea, Singapore, PR China and Indonesia are also using 2010 as their current base year. In general, there are three key motivations to the improvements and rebasing of the GDP:

a) To reflect the recent economic developments

The rebasing of GDP is necessary to ensure that the national accounts statistics reflect the most recent underlying economic structure and relative prices in the economy. By using constant base year prices, changes in GDP in constant terms (real GDP) would reflect only changes in the volume of economic activity. However, relative prices of goods and services do change over time due to the changing demand conditions. This would result in greater allocation of resources and production towards certain economic sectors relative to other sectors. Consequently, the relative weights of the old base year prices would become less representative of the current structure of the economy. This necessitates a change in the base year such that the reference prices become more representative of the more recent economic developments.

b) To incorporate methodological improvements and industrial reclassification

In order to enhance the quality and comparability of Malaysia's GDP statistics, the rebasing exercise incorporates conceptual and methodological improvements as well as the latest industrial reclassification to the statistical compilation.

i. There are two main conceptual and methodological changes that were carried out. First, a refined methodology will be implemented for goods for processing (GFP) (see factbox on 'Goods for Processing in Malaysia's Balance of Payments Statistics'). Secondly, the depreciation of public assets will now be based on the Perpetual Inventory Method as recommended by System of National Accounts.
ii. In terms of industrial reclassification, selected subsectors in the manufacturing, services and mining sectors were reclassified in accordance with the latest Malaysia Standard Industrial Classifications (MSIC 2008).

c) To reconcile data from various censuses, surveys and sources

With the aim of enhancing the quality, reliability and coverage of Malaysia's national account statistics, the rebasing exercise reconciles the latest data from the various censuses, surveys and data sources. DOSM utilised detailed censuses and surveys undertaken since 2010 (including the Economic Census 2011, Supply & Use Tables 2010, Household Expenditure Survey 2009/10 and 2014, Census of Distributive Trade 2014 and other indices such as Consumer Price Index, Producer Price Index and Industrial Production Index based at 2010 prices). Moreover, more comprehensive information and data on industries were obtained from other public agencies such as the Malaysian Palm Oil Board and the Ministry of Agriculture.

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[1] System of National Accounts 2008 (SNA 2008) and Balance of Payments and International Investment Position Manual, IMF, Sixth Edition (BPM6).
[2] GFP are items for processing by an entity which does not own the goods, and hence, does not involve a change of ownership.

Implications on GDP Figures

Following the reconciliation of new information from more recent surveys and improvement in methodologies, Malaysia's nominal GDP in 2010 increased from RM797 billion to RM821 billion (+3.0%). This increase in nominal GDP after rebasing is modest and comparable to revisions made by other countries (Table 1). Meanwhile, the nominal GDP increased from RM1,070 billion to RM1,107billion (+3.4%) in 2014.

Table 1: Nominal GDP of selected countries (during the year of rebase)

Country	Nominal GDP Before Rebasing	Nominal GDP After Rebasing	Revision (%)
South Korea (bil won, 2010)	**1,173,275** (2005=100)	**1,265,308** (2010=100)	**7.8**
Netherlands (mil euro, 2010)	**586,789** (2005=100)	**631,512** (2010=100)	**7.6**
Philippines (bil PHP, 2000)	**3,355** (1985=100)	**3,581** (2000=100)	**6.7**
Malaysia (mil RM, 2010)	**797,327** (2005=100)	**821,434** (2010=100)	**3.0**
Singapore (bil $S, 2010)	**318** (2005=100)	**322** (2010=100)	**1.3**
PR China (100 mil yuan, 2010)	**401,202** (2005=100)	**401,513** (2010=100)	**0.1**
India (rupee crores, 2011/12)	**9,009,722** (2004-05=100)	**8,832,012** (2011-12=100)	**-2.0**

Source: Department of Statistics, Malaysia

On the supply side, economic activity is still driven by the services and manufacturing sectors, which account for approximately three quarters of the GDP. The share of commodities sectors (agriculture and mining) increased, reflecting the higher commodity prices relative to non-commodity prices in 2010 compared with 2005 (Table 2). On the whole, growth rates of all sectors were broadly unchanged.

Table 2: Real GDP by Economic Activity

	2014 share of GDP (%)[1]		2014 growth of GDP (%)	
	2005 prices	**2010 prices**	**2005 prices**	**2010 prices**
Services	55.3	53.5	6.3	6.5
Manufacturing	24.6	23.0	6.2	6.2
Agriculture	6.9	9.2	2.6	2.1
Mining & Quarrying	7.9	9.0	3.1	3.3
Construction	3.9	4.3	11.6	11.8
Overall GDP	**100.0**	**100.0**	**6.0**	**6.0**

[1] Numbers may not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

On the demand side, the shares of major components were broadly unchanged. Domestic demand, in particular private sector expenditure, remains the key driver of growth in the Malaysian economy (Table 3). Additionally, the increase in the share of net exports is due to higher commodity prices relative to non-commodity prices in 2010 compared to 2005[3]. Meanwhile, the growth rates of major components were relatively unchanged, except for net exports as a result of the new base year prices and treatment for goods for processing (GFP).

Table 3: Real GDP by Expenditure

	2014 share of GDP (%)[2]		2014 growth of GDP (%)	
	2005 prices	2010 prices	2005 prices	2010 prices
Aggregate domestic demand	**93.1**	**91.5**	**6.0**	**5.9**
Private sector	**70.0**	**68.5**	**8.0**	**7.9**
Consumption	52.5	51.8	7.1	7.0
Investment	17.5	16.6	11.0	11.0
Public sector	**23.0**	**23.0**	**0.2**	**0.4**
Consumption	13.2	13.6	4.4	4.4
Investment	9.8	9.5	-4.9	-4.7
Net exports of goods & services	**8.0**	**9.3**	**19.7**	**12.8**
Exports of goods & services	88.8	76.1	5.1	5.1
Imports of goods & services	80.8	66.8	3.9	4.2
Overall GDP	**100.0**	**100.0**	**6.0**	**6.0**

[2] Numbers may not add up due to rounding and exclusion of the changes in inventories and valuables component

Source: Department of Statistics, Malaysia

Conclusion

The estimation of Malaysia's GDP has been improved and benchmarked to the base year 2010 to reflect the latest changes in economic structure and relative prices in the economy. This exercise reflects three key enhancements:

(i) The use of 2010 prices in the estimation of GDP at constant prices in order to better reflect current relative prices in the economy;

(ii) Methodological enhancements and industrial reclassification to statistical compilation; and

(iii) Wider coverage of and further enhancements to various data sources, censuses and surveys.

Following the rebase, the upward revision for Malaysia's nominal GDP is modest and is broadly in line with the experience of other countries that have recently undertaken the rebasing exercise. The revision has minimal impact on Malaysia's overall growth figures, suggesting that underlying growth momentum of the economy remains unchanged.

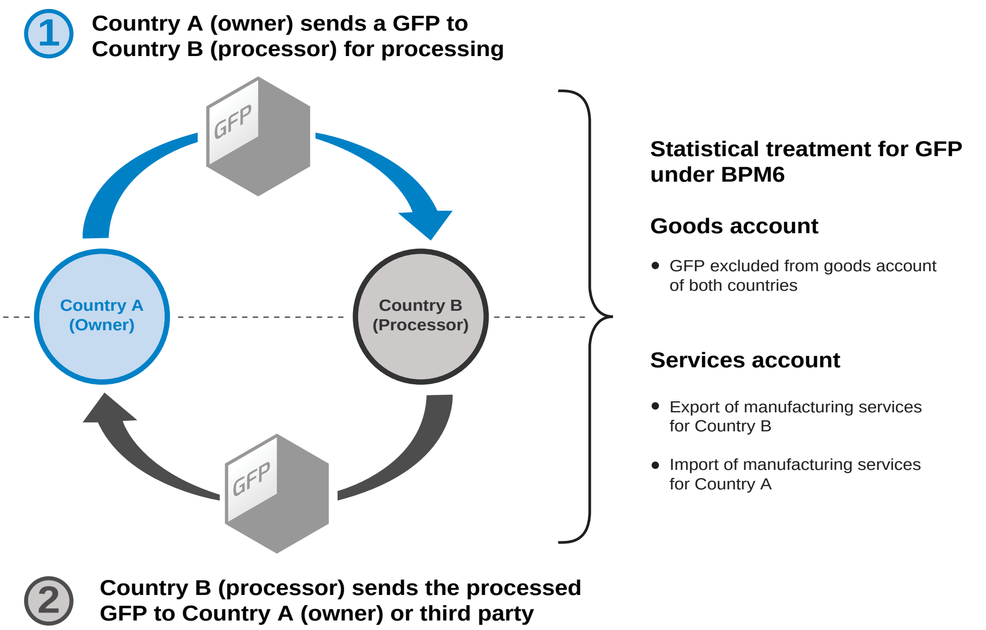
[3] Both exports and imports of goods and services recorded a lower share due to the new treatment for goods for processing (GFP)

Goods for Processing in Malaysia's Balance of Payments Statistics

Goods for processing (GFP) are goods that are sent abroad by an owner to a processor for processing and subsequently returned to the owner or exported to third party, without a change of ownership. Throughout the process, the processing entity does not own either the imported inputs or the processed goods. The processing entity merely receives a processing fee from the owner of the goods for providing the processing services. Based on the survey conducted by DOSM, Malaysia is predominantly a GFP processor country.

In the past, GFP were treated as export and import transactions between a resident and non-resident in the goods account, regardless of the ownership status. With the rise of global production networks, this statistical treatment on GFP has inflated international trade statistics. In response to these concerns, both 2008 System of National Accounts (2008 SNA) and 6th edition of Balance of Payments and International Investment Position Manual (BPM6)[4] have recommended the exclusion of GFP from the goods accounts, with only the processing fees included in the services account (Figure 1).

Figure 1:
Illustration of GFP and conceptual treatment of GFP in BOP statistics



[4] For more information on Malaysia's migration to BPM6, please refer to "Malaysia's Balance of Payments (BOP) – Compilation of BOP Statistics in Accordance with the 6th Edition of Balance of Payments and International Investment Position Manual (BPM6) of the International Monetary Fund", published in BNM Quarterly Bulletin, First Quarter 2013.

In principle, the revised treatment would not have any impact on GDP and BOP statistics, as it involves merely a reclassification of goods transactions to services transactions. In reality, however, the complexity of international trade transactions mean that the effect of these shifts do not entirely offset, as the service charges include other costs, such as holding gains/losses and overheads, which are not attributed to the processing entity.

In the case of Malaysia, the amount of GFP removed from the goods accounts was higher than the services charges included in the services accounts in the BOP. The net result is a lower net goods and services balance in GDP. Consequently, the current account balance was also lower (Table 1).

Table 1: Current Account Balance in Malaysia, 2014

RM billion	Before incorporating GFP	After incorporating GFP	Difference
Goods balance	125.1	113.4	-11.7
Services balance	-20.5	-11.2	9.4
Goods and services	**104.5**	**102.2**	**-2.3***
Primary income	-37.4	-37.3	0.1
Secondary income	-17.6	-17.6	-
Current account balance	**49.5**	**47.3**	**-2.2***

* Difference in current account balance and goods and services balance differ, as there were also statistical revisions to primary income account data, which affected the overall current account balance

Source: Department of Statistics, Malaysia

References

International Monetary Fund 2011. “Balance of Payments and International Investment Position Manual (Sixth Edition)”