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The Economics of Public Holidays

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The Economics of Public Holidays

Overview

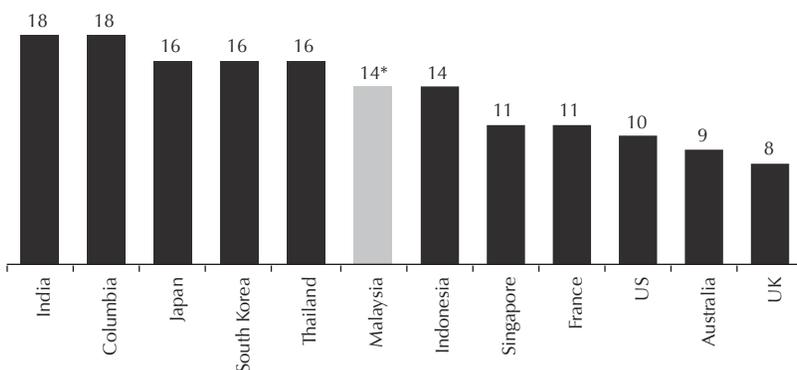
Over the years, there have been some debate on the high number of public holidays observed in Malaysia and the repercussions to the economy, especially on productivity.

In general, public holidays, though arguably are popular, are seen as a cost to the economy, as work disruptions reduce production and weigh on productivity. However, public holidays could also be associated with economic gains, as leisure time potentially enhances creativity and boosts productivity. Additionally, businesses in specific industries such as retail and hospitality are likely to benefit from increased consumer spending and tourism activities during public holidays.

A more important factor than the number of public holidays that could adversely affect the economy is the nature of public holidays. In particular, sudden announcements of public holidays and intermittent mid-week public holidays are highly disruptive to work activity while bringing little benefit in lifting leisure activity.

Chart 1

Public Holidays Observed in the Selected Countries (No. of Days)



* In Malaysia, it is compulsory for employers to grant workers a minimum of 11 public holidays, which is stipulated under the Holidays Act 1951 (Act 369).

Each state in Malaysia observes an average of 4 additional state holidays such as religious days (e.g. Good Friday), special commemorative days (e.g. Georgetown Heritage City Day), Installation of Sultan, and Demise and Birthday of Sultan.

Source: Mercer (2014)

Global Comparison: Number of Public Holidays and the Economy

Following the inclusion of Malaysia Day as a permanent nationwide holiday as of 16 September 2010, Malaysians enjoy 14 days of Federal public holidays, and an additional 4 state holidays on average per year. To commemorate special events, there has also been a number of ad hoc public holidays that were announced on a short notice (Table 1).

Comparing globally, workers in India and Colombia enjoy the highest number of Federal public holidays at 18 days (Mercer, 2014). In the region, Malaysia is ranked among the top ten nations in Asia with the highest number of public holidays, behind India, Japan, South Korea and Thailand (Chart 1).

While there is no conclusive study that points toward the optimal number of public holidays that an economy should

observe, the advanced economies enjoy an average of 12 days of public holidays, whereas the emerging nations have an average of 15 days.

Impact of Public Holidays

Broadly, public holidays incur a cost to the economy through the following:

Output loss

Public holidays have been found to result in a loss in output. This is especially true for businesses that are unable to operate during public holidays, compromising production yield and lowering productivity. For example, a study by the Centre for Economics and Businesses Research (CEBR) in the UK estimated that every additional ‘bank holiday’ observed costs the UK economy GBP2.3 bn in lost production. Without these bank holidays, the UK’s overall GDP could be higher by GBP19 bn every year.

Table 1

List of Newly Announced Permanent and Ad Hoc Public Holidays since 2010

Year	Advanced notice (≥ 2 weeks ahead)	Short notice (< 2 weeks ahead)
2010	<ul style="list-style-type: none"> 8 July (Penang: UNESCO Heritage) 16 Sep (Malaysia Day) 	<ul style="list-style-type: none"> 31 Dec (AFF Suzuki Cup)
2011	<ul style="list-style-type: none"> 1 Sep (Additional leave for Hari Raya Aidilfitri) 	
2012	<ul style="list-style-type: none"> 11 Apr (YDP Agong Installation) 	
2013		<ul style="list-style-type: none"> 6 May (Selangor: Elections)
2014	<ul style="list-style-type: none"> 15 July (Federal Territory: Nuzul al-Quran) 	<ul style="list-style-type: none"> 3 Nov (Pahang: Malaysia Cup)
2015		<ul style="list-style-type: none"> 13 Dec (Selangor: Malaysia Cup)
2016	<ul style="list-style-type: none"> 10 July (Johor / Terengganu: Raya holidays) 22 July (Sarawak: Independence from British) 	<ul style="list-style-type: none"> 31 Oct (Kedah: Malaysia Cup) 13 Dec (Kelantan: Sultan Kelantan Installation as YDP Agong)
2017	<ul style="list-style-type: none"> 24 Apr (YDP Agong Installation) 	<ul style="list-style-type: none"> 4 Sep (SEA Games)

Source: News flows

Disruption to business activity

The nature of public holidays could have a greater bearing on economic activity and productivity than the number of public holidays. While the negative impact to output arising from business closure during the scheduled public holidays could be mitigated through advanced planning and efficient resource management, the work disruptions that are caused by the sudden declaration of public holidays are more detrimental to the economy.

Unplanned holidays disrupt business activity across the supply chain, such as manufacturing-related industries and ancillary services (e.g. transportation), which are constrained by tight schedules to fulfil orders and shipments.

Increased wage cost

To ensure that business operations remain uninterrupted and production yields are not heavily compromised, employers would have to compensate workers who work on a public holiday with higher wages. This increase in labour cost, coupled with a potential loss in output, adversely affects profitability.

Some employers are also forced to hire part-time workers, especially foreign workers who are more willing to be employed at such a short notice.

While these surprise announcements of public holidays could be deemed as populist measures, reactions of firms suggest that these measures do not bode well with the business community,

potentially dampening business and investor sentiments.

Inconvenience to daily life

Apart from affecting production activity, disruptions would also involve the loss in time and inconveniences arising from the rescheduling of plans such as medical appointments and schools' teaching schedules.

In contrast, planned public holidays could generate benefits to the economy via the following channels:

Higher consumer and tourism spending

The negative impact to the economy could be somewhat offset by the boost to consumer and tourism spending, especially if public holidays are planned ahead and announced well in advance. Ramasamy, Yeung and Au (2008) found that extending holidays by a day in a quarter in Hong Kong SAR increases private consumption expenditure by 0.66% for the quarter. Consequently, the quarterly GDP would increase by 0.34% per extra holiday.

Increased leisure time

Additionally, increased leisure time and activity could have positive effects on human capital, as they improve life quality and enhance creativity, innovation and productivity (Wei, Qu and Ma, 2010). Extra leisure time could invigorate workers such that the consequent gain in labour productivity offsets the loss from the working hours lost due to a public holiday.

Malaysia’s Experience

Based on staff estimates, the gross output loss from an unanticipated public holiday in Malaysia is about RM3.5 bn per day. This is derived from the assumption on the percentage of workers in selected economic sectors (manufacturing, construction and services) which are expected to work¹ and the net output loss from the unavailability of workers during the holiday. However, the additional holiday would also induce consumption spending on shopping and leisure leading to output gains to specific services sub-sectors such as distributive trade and accommodation and restaurant, estimated at RM0.3 bn². Hence, the net output loss to the Malaysian economy is approximately RM3.2 bn (41% of gross output per day; 0.1% of annual gross output) (Table 2).

Of significance, this large impact is particularly evident in the services and manufacturing sectors, with an estimated net loss in output of RM1.6 bn and RM0.6 bn respectively. In particular, the sudden disruptions would affect planning and

decisions across the entire manufacturing supply chain. This includes ancillary services such as rescheduling of logistics services and inventory costs associated to warehousing facilities. Initial estimates point to additional ancillary services costs for businesses of between RM19 – 38 mn.

Public holidays in Malaysia are also associated with higher labour cost to businesses which lowers their profit margins, given that employees who work on a public holiday are entitled to receive double the normal wage level. Using the similar assumption on the percentage of workers during a public holiday (as in Table 2), it is estimated that firms would incur an additional labour cost of RM642 mn. This would largely affect businesses in the services and manufacturing sectors which account for 79% of total employment in the economy. On the demand side, adverse implications to the economy could also emanate from potential delays in progress of investment projects due to slower construction work done (e.g. labour constraints) and affect export activity (e.g. lower production).

Table 2

Malaysia: Estimation of Output Loss

Sector	Net Output Loss (RM bn)	Reference: Gross Output Per Day (RM bn)
Services	1.6	3.5
Manufacturing	0.6	3.1
Construction	0.4	0.5
Mining	0.4	0.4
Agriculture	0.2	0.2
Overall	3.2	7.7

Source: Economic Census (2016), Staff estimates

¹ Assumption on the percentage of employees in selected economic sectors working during a holiday: manufacturing (80%), services (48%; namely, 90% of workers in the wholesale and retail trade and accommodation and restaurant) and construction (10%).

² Estimated by assuming a 10 percent increase in gross output in tourism- and leisure-related sectors due to an additional public holiday (source: <https://www.nst.com.my/news/nation/2017/09/276143/five-day-holiday-boon-tourism-melaka>).

Policy Implications and Conclusion

A key lesson for policymakers would be to avoid policy decisions which generate greater uncertainty and affect productivity. Sudden declarations of public holidays can be disruptive and costly to the economy, particularly given the reduced production activity and increased input cost.

Policymakers could consider observing non-religious holidays on a Saturday,

which would curtail disruptions to the economy during the weekdays. Furthermore, this could optimise the time spent by households for leisure activities.

It is imperative for policymakers to adhere to a structured and consistent number of public holidays that are observed in the economy. By reducing uncertainties on unanticipated public holidays, this would ensure better planning among businesses and households, further enhance productivity and minimise output loss.

Issues for Discussion

- 1) Unlike the homogeneous societies in other economies, it is inevitable for Malaysia to observe more public holidays as a multi-cultural and multi-religious nation. How can policymakers ensure that the economic and social benefits of these public holidays are maximised?
- 2) If current practices are unabated, how should policymakers address the adverse implications arising from the loss in productivity?



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