社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

Bank Negara Malaysia (BNM)'s Economic and Monetary Review 2022 & Financial Stability Review, Second Half 2022

Laying a Future-Proof Foundation

29 March 2023

Key messages

A challenging and uncertain global economic environment

The Malaysian economy to expand moderately in 2023, supported by firm domestic demand

The Malaysian banking system remains resilient

Economic and financial issues

Moderate global economic growth amid uncertainties

The **global economy is expected to grow at a slower pace of 2.4%-2.9% in 2023**. Resilient labour markets, the easing of supply chain disruptions, China's reopening and continued recovery in global tourism activity are expected to facilitate global economic growth.

Inflation is expected to moderate in 2023 but remains elevated for many countries. The moderation reflects **easing of supply chain disruptions**, **lower commodity prices** and **softening global demand**.

Risks to global growth are tilted to the downside, which could come from **an escalation of geopolitical tensions**, which could disrupt global trade, supply chains and commodity markets, and **the turmoil in the global banking sector**.

Source: IMF; BNM

Key risk factors to global growth

Upside risks

Resilient labour markets underpinning household spending

Full reopening of China’s economy

Easing of supply chain disruptions

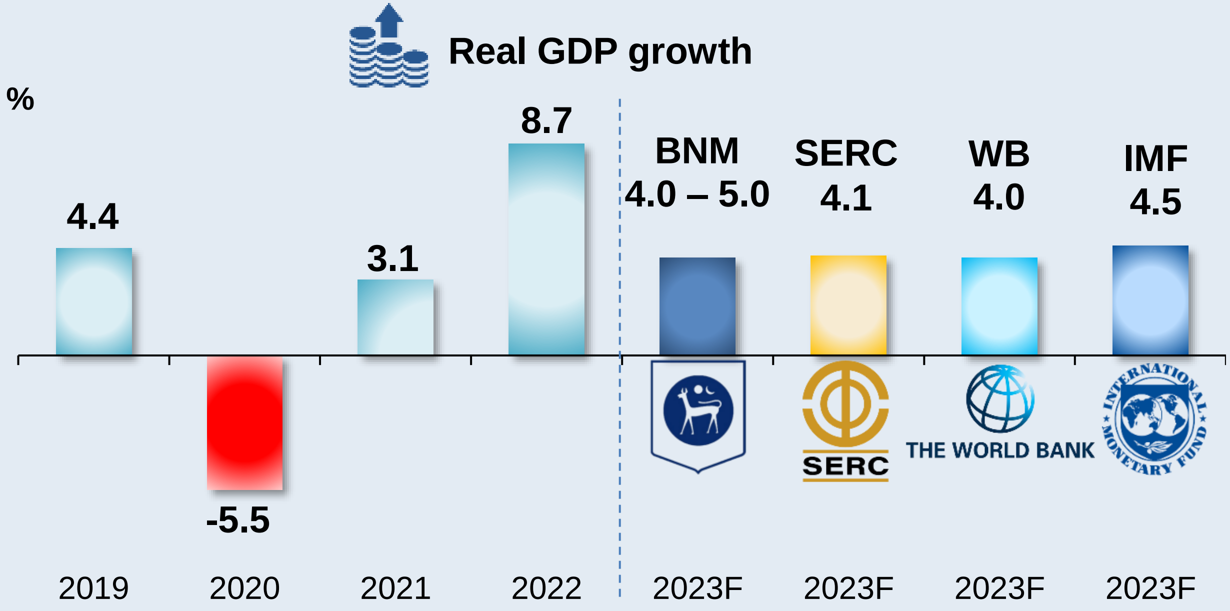
Downside risks

Elevated inflation

Tight monetary policy and financial conditions

Higher financial market volatility and uncertainty amid recent banking stress in advanced economies

The Malaysian economy continues to grow, albeit slower in 2023



Key Growth Drivers

Continued implementation of multi-year investment projects

Further recovery in tourism activity

Further improvement in employment and income levels

Continued targeted policy measures

Key Challenges in 2023

Slowing global economic and trade growth

- Elevated inflation
- Tight monetary policy and financial conditions

Elevated cost of living and input cost

Cost and price pressures dampening spending by consumers and firms

Source: DOSM; BNM; SERC; World Bank; IMF

Risks to Malaysia's growth outlook are fairly balanced

2023F:
4.0%-5.0%

Upside risks stem mainly from domestic factors

- Better-than expected labour market conditions
- Stronger-than-expected pick-up in tourism activity
- Implementation of projects, including from re-tabled Budget 2023

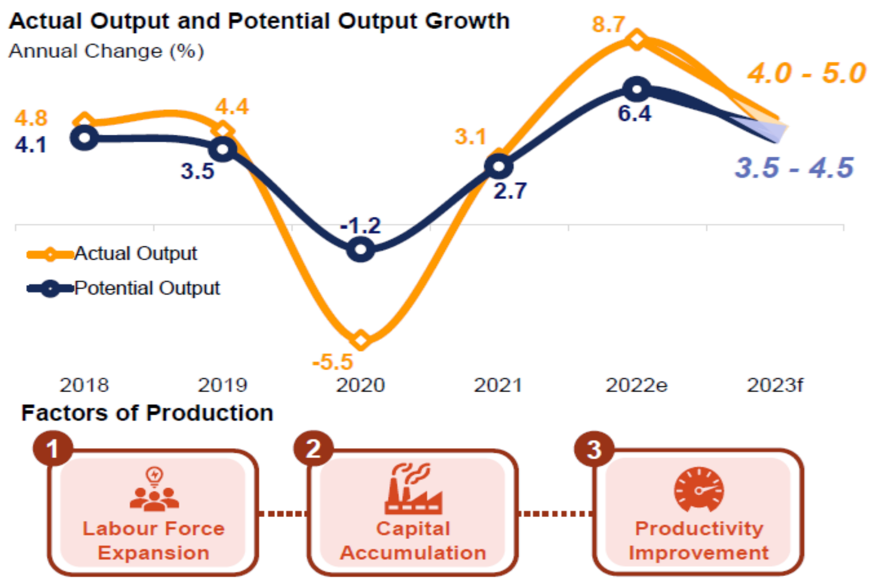
Downside risks dominated by external factors

- Sharp tightening in global financial market conditions
- Further escalation of geopolitical conflicts
- Higher-than-expected inflation and input costs domestically

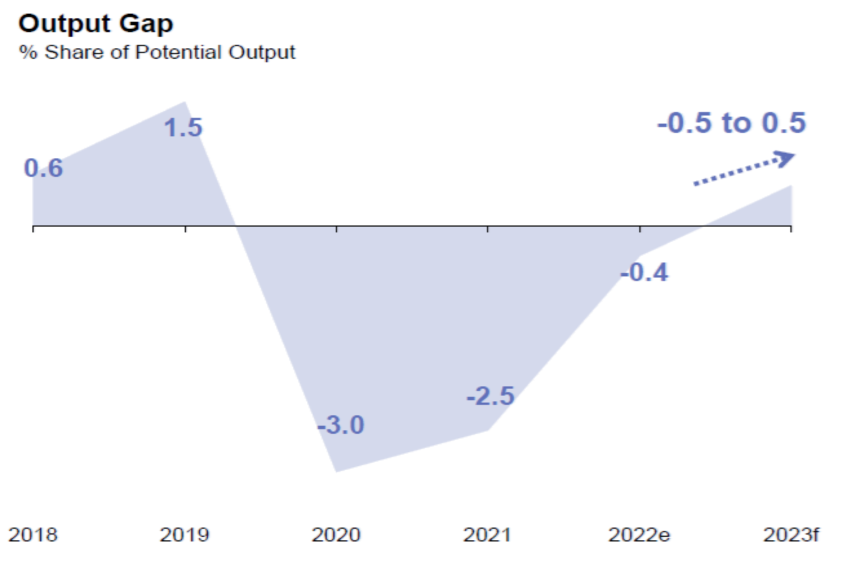
Malaysia's potential output and the output gap

- **Output gap is expected to turn from negative to positive in the second half-year of 2023**, with actual output averaging close to the potential output for the year.
- The closing of output gap is driven by higher actual output growth of 4.0%-5.0%, which is projected to outpace potential output growth of 3.5%-4.5% following normalisation of the latter from its high base in 2022.
- **Potential output is projected to revert to pre-crisis growth of 4.0%-5.0% in the medium term**, supported by continued implementation of automation and digital infrastructure projects, which will enhance productivity.

Continued growth in potential output, supported by expansion in factors of production



Closing of output gap is driven by higher actual output growth outpacing potential output growth



Source: DOSM; BNM estimates

SERC's commentaries

- **"Slow and normalising" growth in 2023.** The Malaysian economy will not be in recession. Following a strong expansion of 8.7% in 2022, Bank Negara Malaysia's (BNM) estimate of between 4.0% and 5.0% (point estimates of 4.5%) in 2023, is in line with SERC's estimate of 4.1%.

- **Domestic demand calling the shots**. With exports are expected to slow substantially, domestic demand will be holding the fort to deliver the expected economic growth for 2023. While the improvement in labour market and wage growth will support consumer spending, we caution that still elevated inflation and cost of living as well as higher interest rates would take off some steam from household spending. Private investment growth, largely underpinned by investment in the manufacturing sector, will continue to expand moderately amid higher cost pressures and cautious global economic prospects.

- We concur with Bank Negara Malaysia's assessment that **the upside and downside risks to the economy are roughly balanced**.

  a) Exports growth momentum, which has been softening since late 2022, continued in Jan-Feb 2023 (5.4% vs. 24.1% in 2H 2022), reflecting the dampening impact of weakening global demand, easing prices of energy and commodities as well as being challenged by the high base effects.

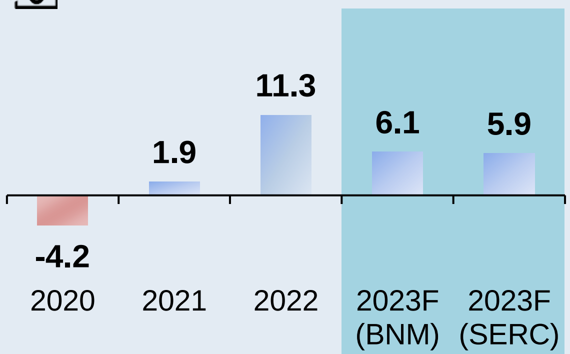
  b) Prolonged and further escalation of the geopolitical conflicts would impact Malaysia via trade disruptions, commodity and energy prices and financial market volatility.

  c) China's reopening would help to strengthen domestic tourism, trade activities and Chinese FDI inflows.

  d) Inflation remains tilted to the upside if the worsening geopolitical conflicts lead to higher commodity prices, extreme weather conditions and higher input costs due to exchange rate developments. The wild card is a review of domestic policy on subsidies.

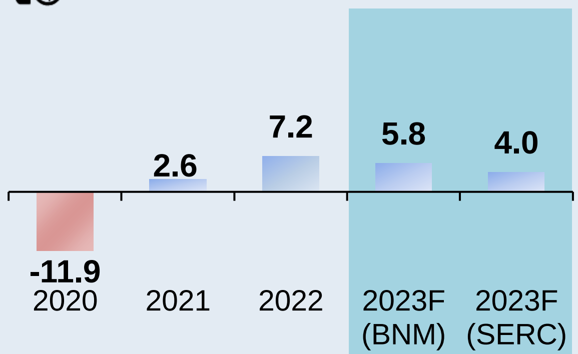
Firm domestic demand continues to drive the economy

Private Consumption (%) **[60.2% of GDP]**



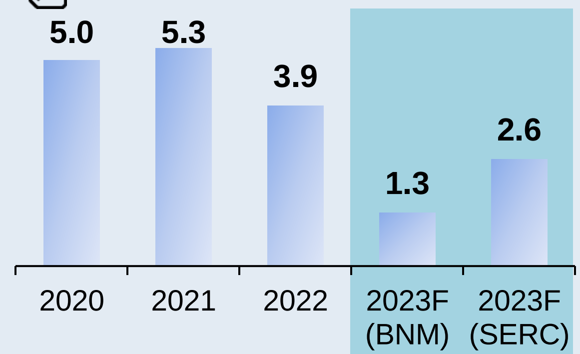
- Continued improvement **in employment and income**
- Further adjustment in spending in response to elevated cost of living

Private Investment (%) **[15.4% of GDP]**



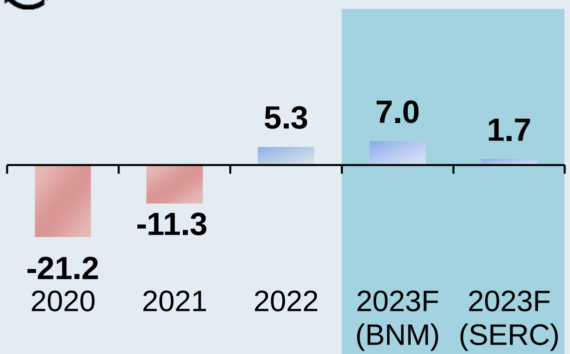
- The realisation of new and ongoing investment projects
- **Continued drive for greater automation and digitalisation**

Public Consumption (%) **[13.2% of GDP]**



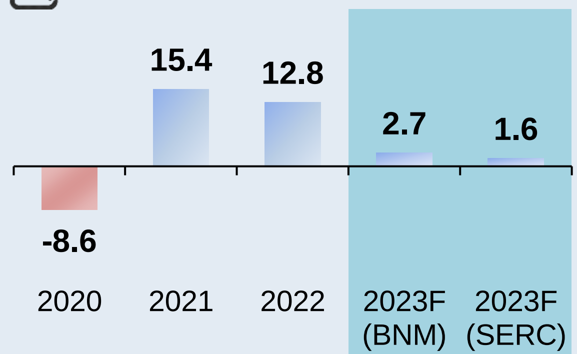
- **Contraction in supplies and services expenditure** due to the lapse in COVID-related expenditure

Public Investment (%) **[4.4% of GDP]**



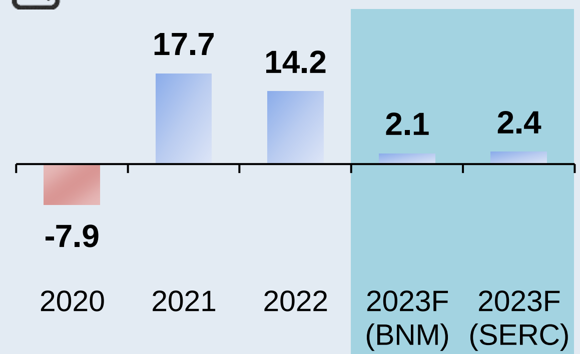
- **Increase in fixed assets spending** on transportation, education, public utilities, and healthcare projects

Real Exports (%) **[71.7% of GDP]**



- **Slower-than-anticipated external demand**
- Further escalation of **geopolitical tensions**

Real Imports (%) **[66.3% of GDP]**

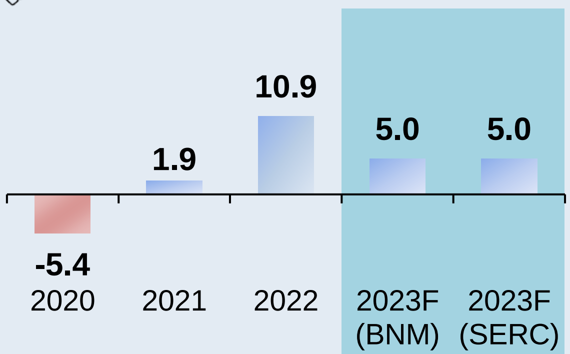


- Slower manufactured exports growth
- Continued expansion in **domestic demand**

Note: Figure in parenthesis [ ] indicates share of GDP in 2022
Source: DOSM; BNM; SERC

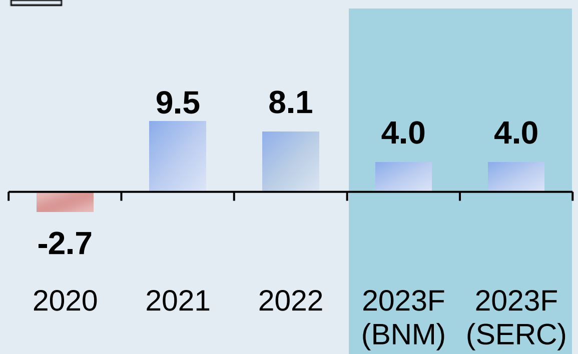
Sectoral outlook: Continued expansion at a moderate pace

Services (%) **[58.2% of GDP]**



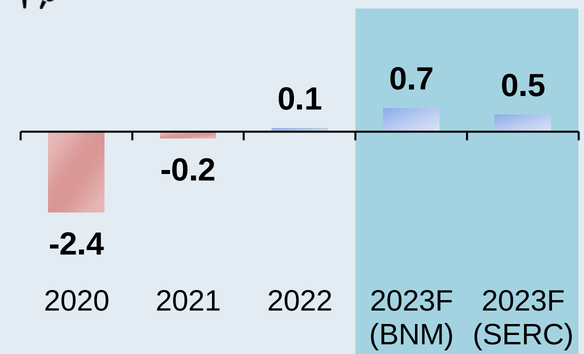
- Further recovery in global tourism activity
- Sustained demand for data services

Manufacturing (%) **[24.2% of GDP]**



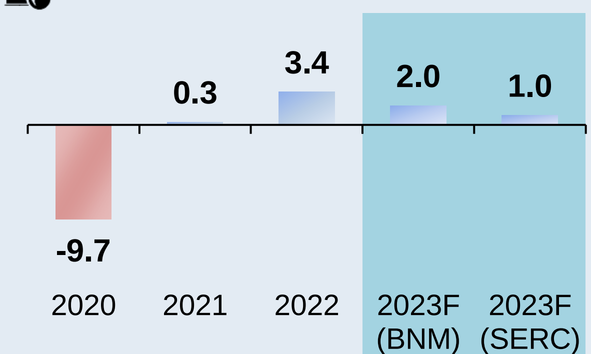
- Primary-related cluster to expand at a faster pace, partly supported by the **higher capacity utilisation at a major oil refinery in Johor**

Agriculture (%) **[6.6% of GDP]**



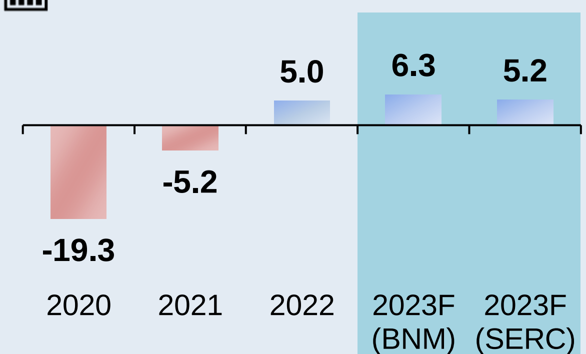
- **Higher oil palm production**
- Gradual recovery in **raw material supplies**

Mining and quarrying (%) **[6.4% of GDP]**



- **Operationalisation of new facilities** and **higher production in existing oil and gas facilities**

Construction (%) **[3.5% of GDP]**



- Faster progress of existing **large transportation projects** and **utility projects**
- **Higher new housing projects and launches**

Note: Figure in parenthesis [ ] indicates share of GDP in 2022
Source: DOSM; BNM; SERC

SERC's commentaries

- **Domestic demand remains the main driver of growth. Domestic demand is estimated to normalize to 5.4% in 2023 from 9.2% in 2022** due to a dissipating of strong pent-up demand as the ultra-consumption booster measures lapsed. Exports will expand at a much moderate pace (BNM: 1.5% in 2023 vs. 25.0% in 2022) in line with slower global growth.

- BNM expects **private consumption growth to expand at a more sustainable pace of 6.1% in 2023** (SERC: 5.9%) from 11.3% in 2022. Household spending will be dampened by the elevated cost of living; higher interest rates (borrowing cost) for high-debt borrowers, which reduce consumer spending power.

- **Private investment will register a moderate growth of 5.8% in 2023** (7.2% in 2022), reflecting the realization of new and ongoing investment projects in the manufacturing sector and some services sub-sectors. The ongoing key infrastructure projects such as the Malaysia Digital Economy Blueprint (MyDIGITAL) and the continued drive for greater automation and digitalization would support investment activities.

- **All economic sectors are expected to expand at a moderate pace:**

  a) The **services sector** will grow at a moderate pace of 5.0% from the strong growth of 10.9% in 2022**,** mainly supported by a further recovery in tourism activity and firm domestic demand.

  b) The **manufacturing sector** will expand at a moderate pace of 4.0% (8.1% in 2022), whereby the electronics and electrical (E&E) cluster and consumer-related manufacturing cluster are expected to be slower amid the anticipated slowdown of global semiconductor sales as well as a normalisation in household spending activities.

SERC's commentaries (cont.)

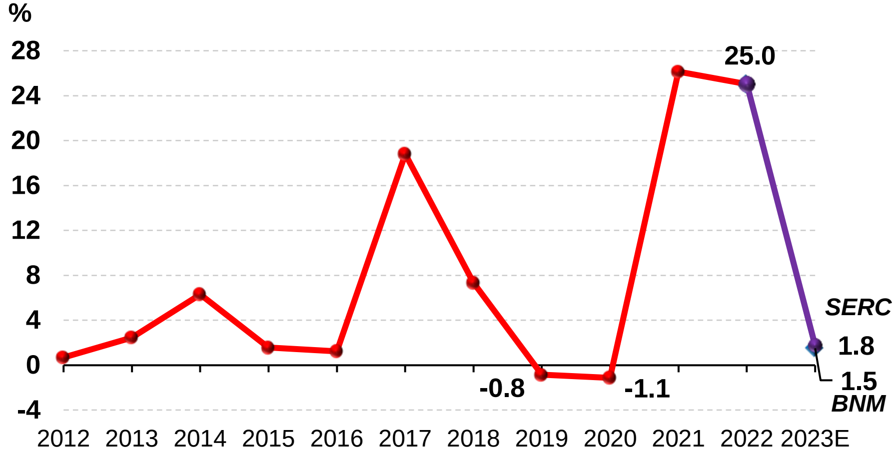
c) The recovery in the **agriculture sector** (estimated 0.7% vs. 0.1% in 2022) will be driven by higher palm oil production amid improvement in the labour supply and recovery in raw material supplies.

d) The **mining sector** is estimated to register a moderate growth of 2.0% in 2023 (3.4% in 2022) as loss of output from several maintenance-related closures amid operationalisation of new facilities and higher production in existing oil and gas facilities.

e) The **construction sector** is estimated to register higher growth of 6.3% from 5.0% in 2022 following a resumption of construction activities related to residential and commercial development. Faster progress of on-going large transportation and utility projects will lift growth in the civil engineering subsector.

Slower export growth; Current account remained in surplus

Exports to slow sharply due to slowing global demand and softening commodity prices

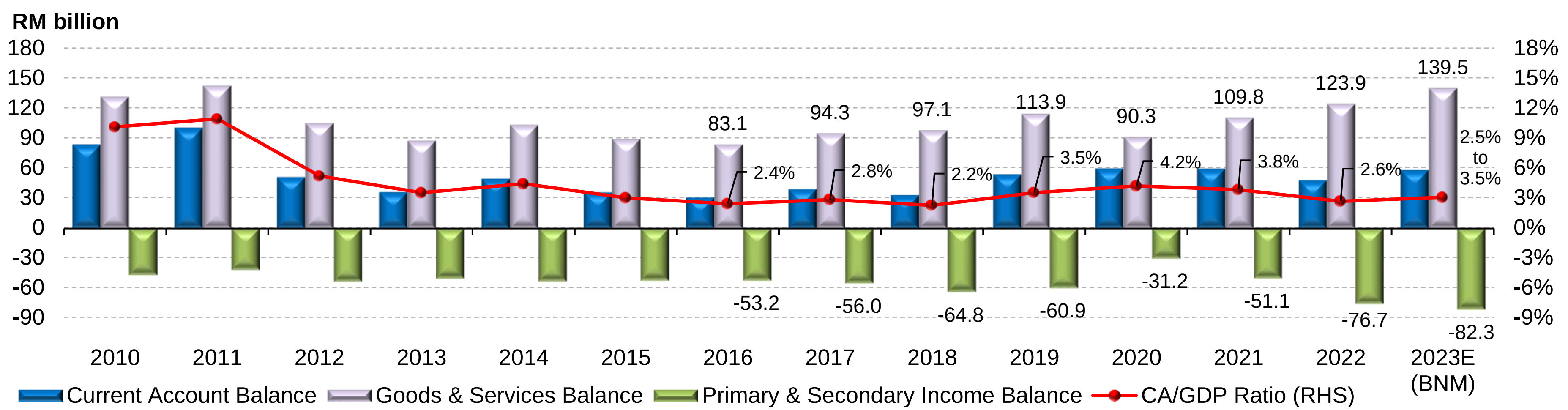


Strong expansion in export products in 2022

Major export products	RM billion	% Growth
Electrical & electronic products [38.2%]	593.5	30.2
Petroleum products [10.5%]	163.0	69.4
Palm oil [5.3%]	82.5	27.7
Chemical and chemical products [5.2%]	80.6	14.0
Liquefied natural gas [4.4%]	68.0	78.0
Manufactures of metal [4.1%]	63.6	3.2
Machinery & equipment [3.9%]	60.4	21.0
Optical & scientific equipment [3.7%]	56.7	20.9

Figure in parenthesis indicates % share of gross exports in 2022

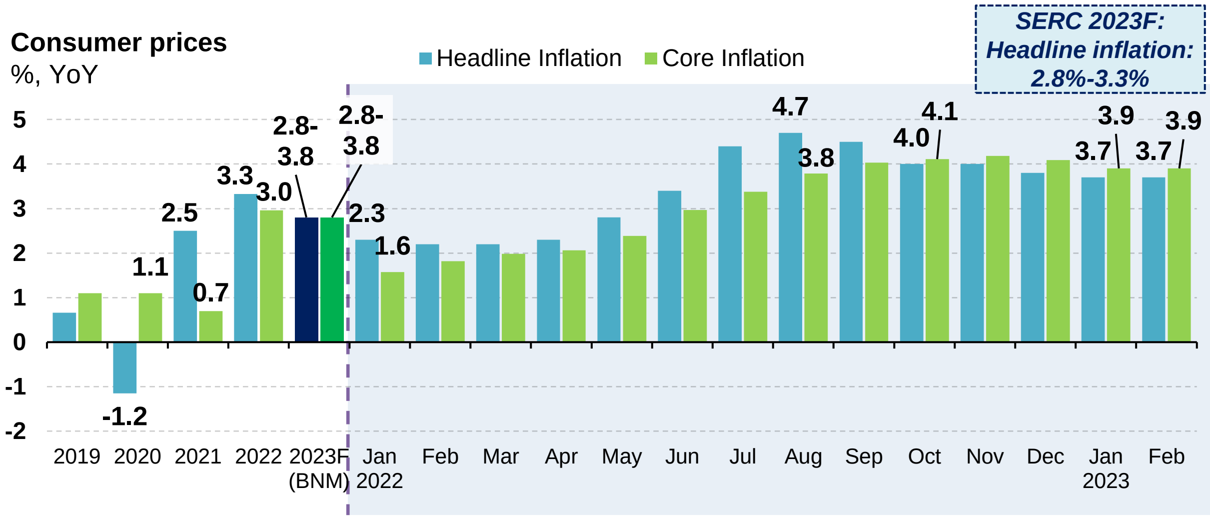
Current account is projected to register a surplus of between 2.5% and 3.5% of GDP in 2023



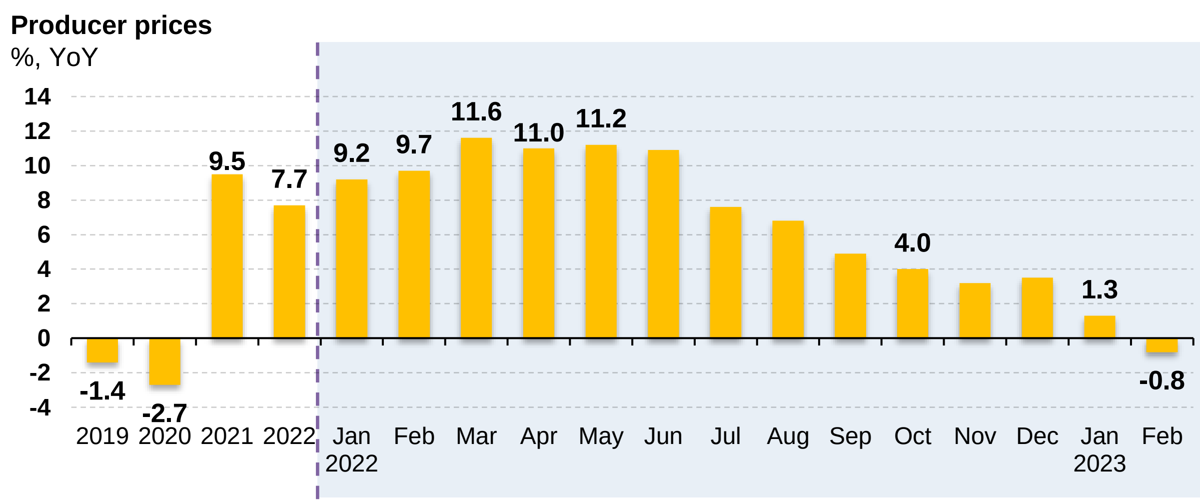
Source: DOSM; BNM; SERC

Headline and core inflation would remain elevated in 2023

Headline and core inflation



Producer prices



Source: BNM; DOSM; SERC estimates

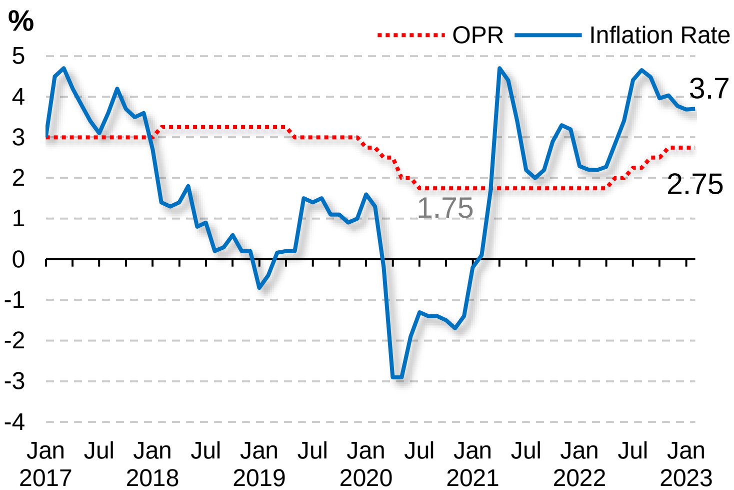
Higher global commodity prices amid worsening geopolitical conflicts

Review of domestic policy on subsidies and price controls may further lead to higher input costs due to exchange rate development

Faster dissipation of domestic pent-up demand from 2022 amid more subdued commodity prices on weaker global growth

Bank Negara Malaysia remains on guard on inflation

Overnight Policy Rate (OPR)

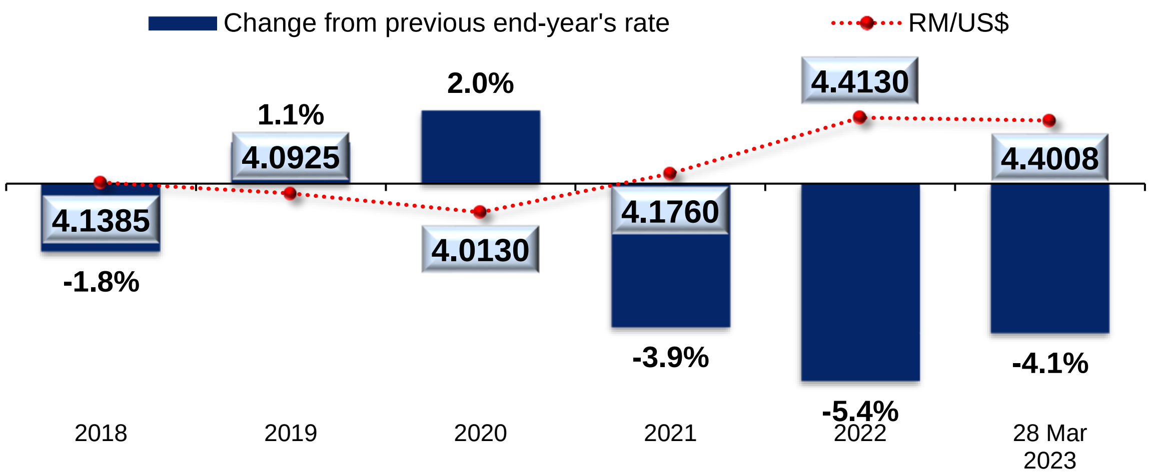


OPR was gradually hiked to 2.75% to support sustainable economic growth in an environment of price stability

Year	OPR (%)*	Inflation
2018	3.25	1.0
2019	3.00	0.7
2020	1.75	-1.2
2021	1.75	2.5
2022	2.75	3.3
*2023E^*	*3.00*	*2.8-3.3*

* OPR as at end-period ^ SERC's estimates

Exchange rates (RM/US)



Source: BNM; DOSM

Note: Exchange rate (12:00 rate) as at end-period

Continue to balance the risks to domestic inflation and economic growth

Any adjustment to the degree of accommodation will take into consideration the evolving global and domestic conditions and their implications on the overall outlook of domestic inflation and growth

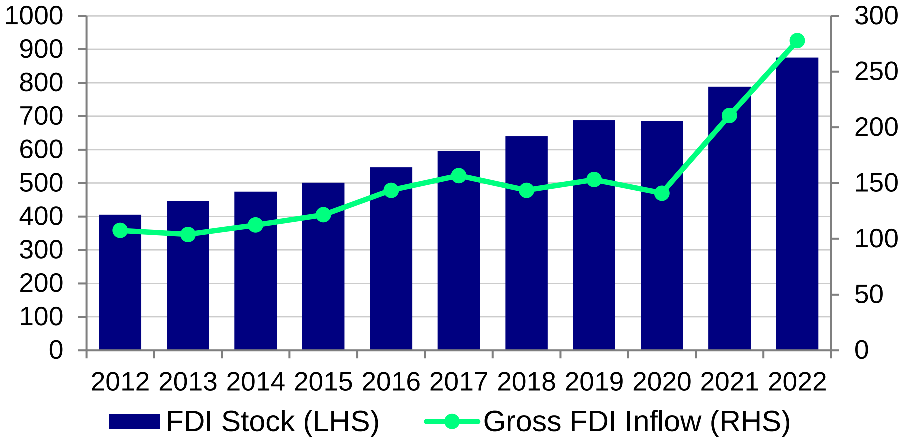
Remains vigilant to cost factors, including those arising from financial market developments, that could affect the inflation outlook

SERC's commentaries

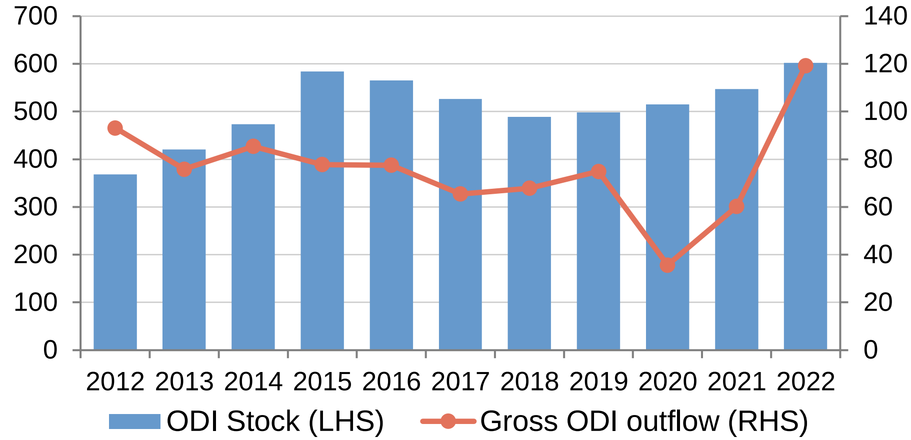
- **Both headline and core inflation are expected to moderate but remain elevated in 2023**. Bank Negara Malaysia expects both headline and core inflation to vary between 2.8% and 3.8% in 2023 (3.3% and 3.0%, respectively, in 2021).
- **Global cost environment has moderated**, thanks to lower average prices of key commodities amid improving supply constraints and softening global demand. **Inflationary pressures would ease in 2023**.
- However, **higher expected headline and core inflation reflect firm domestic demand, improvement in the labour market and a gradual subsidy rationalisation.** We must remain wary of other upside risks to inflation, such as worsening geopolitical conflicts, extreme weather conditions, demand-pulled inflation from China, and higher input costs due to exchange rate developments.
- Bank Negara Malaysia said that **the degree of exchange rate pass-through (ERPT) to inflation is expected to be moderate rather than excessive**, as the impact of the Ringgit's depreciation against the US dollar. The implementation of administered prices and relatively stable firm pricing behaviour in Malaysia also tend to limit the extent of ERPT. It is estimated that a 5% change in ringgit results in a change in core inflation by 0.2 percentage points over a year.
- The Monetary Policy Committee (MPC) will continue to calibrate the monetary policy settings that balance the risks to domestic inflation and sustainable growth. **We expect the overnight policy rate (OPR) to return to its normalcy, taking it to 3.00% by end-2023**.

Malaysia remains attractive as an investment destination

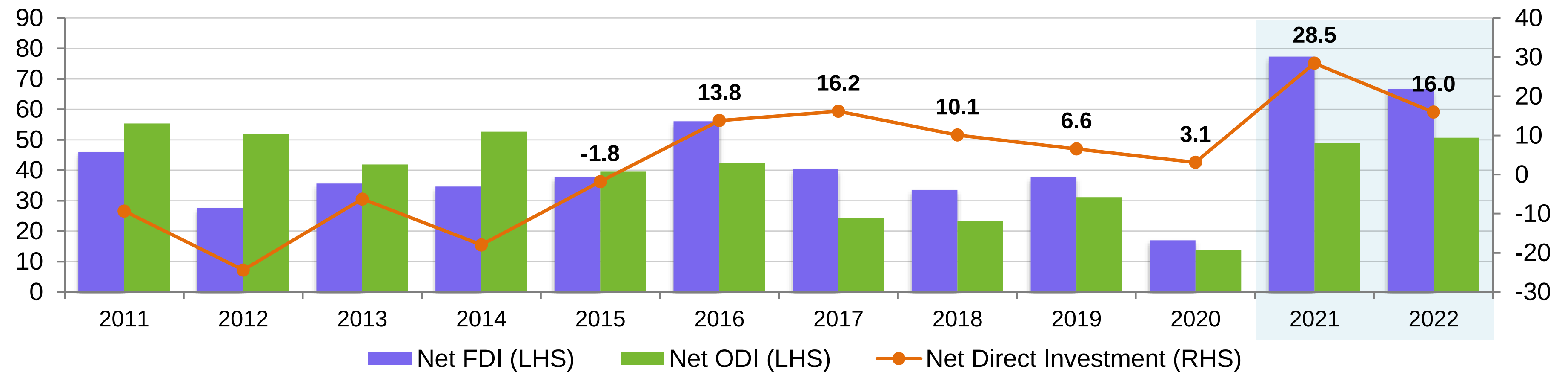
Gross FDI inflows accelerated and will remain robust on a more stable environment



Gross ODI flows also increased strongly post the pandemic



Net inflows of direct investment remained strong in 2022, albeit lower than in 2021

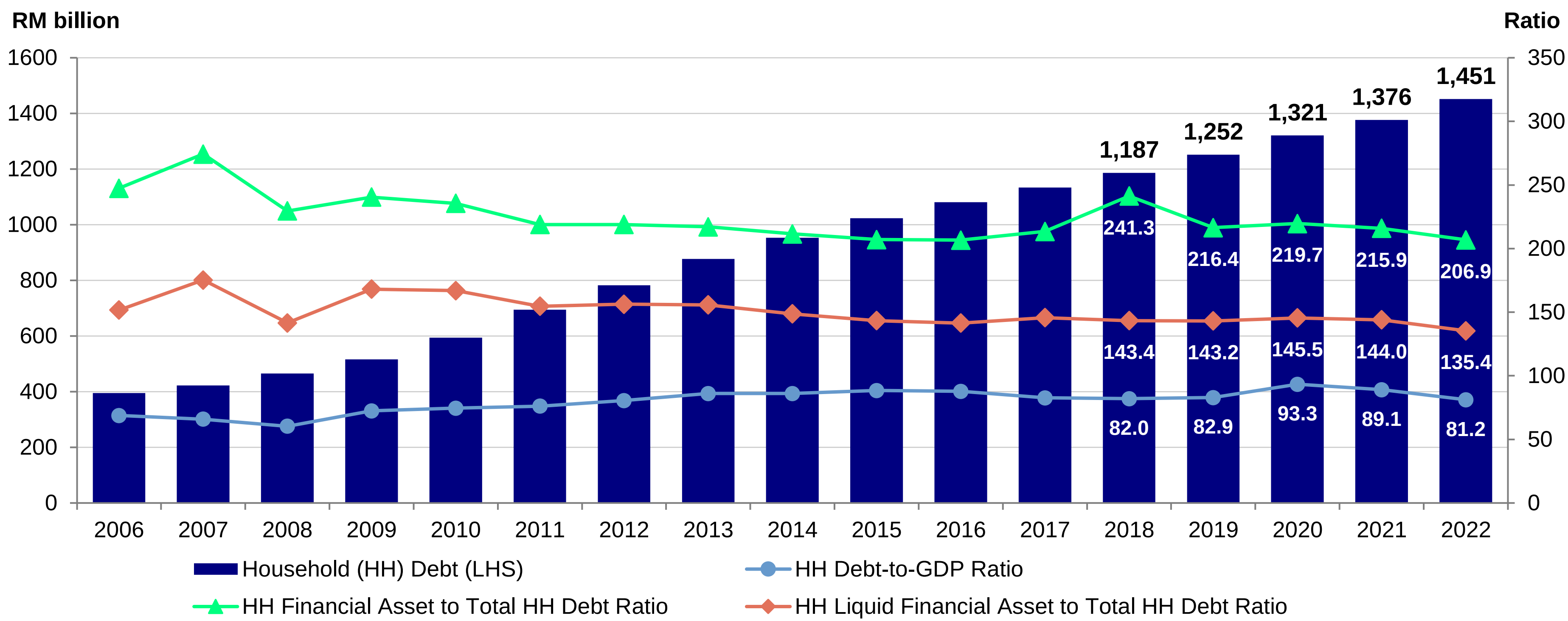


Source: BNM

FDI = Foreign direct investment; ODI = Outward direct investment

Credit risks from the household sector remain manageable

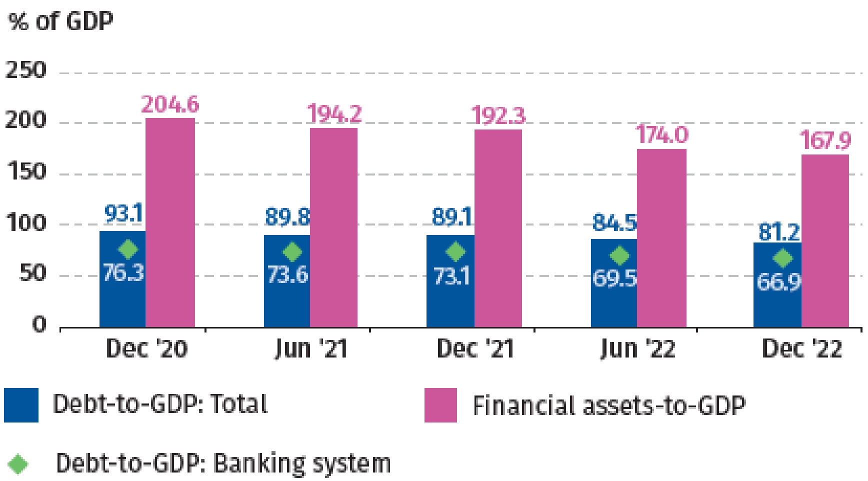
- **Household debt increased by 5.5% to RM1,451 billion in 2H 2022 from RM1,376 billion in 2H 2021,** driven by loans for the purchase of residential property, which was spurred by home ownerships campaign measures.
- **The ratio of household debt-to-GDP fell further to 81.2%,** as nominal GDP grew at a stronger pace in 2H 2022. Credit risks from the household sector remained manageable, supported by improving economic and labour conditions, albeit it was still higher than regional peers in 2021 level.



Source: BNM

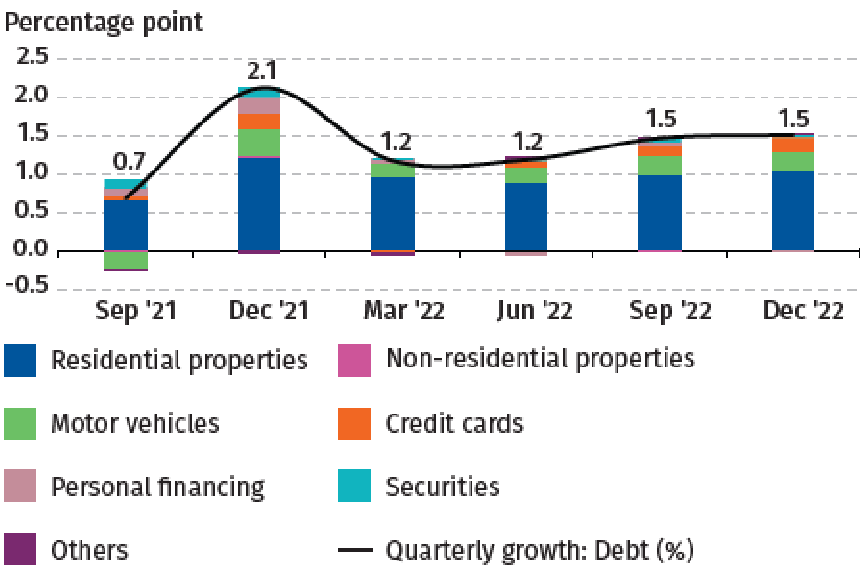
Household sector debt conditions

Household Sector – Key Ratios



Note: The loan/financing data from 2021 onwards are based on updated statistical reporting requirements to reflect more accurate data definition and reporting methodology.

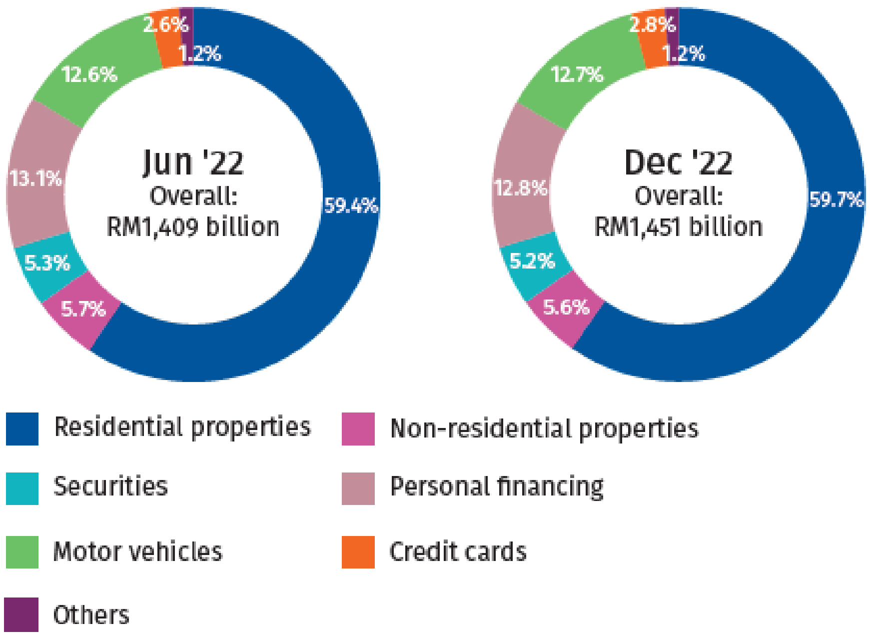
Household Sector – Quarterly Growth of Debt



Source: BNM; Bursa Malaysia; DOSM; Employees Provident Fund; Securities Commission

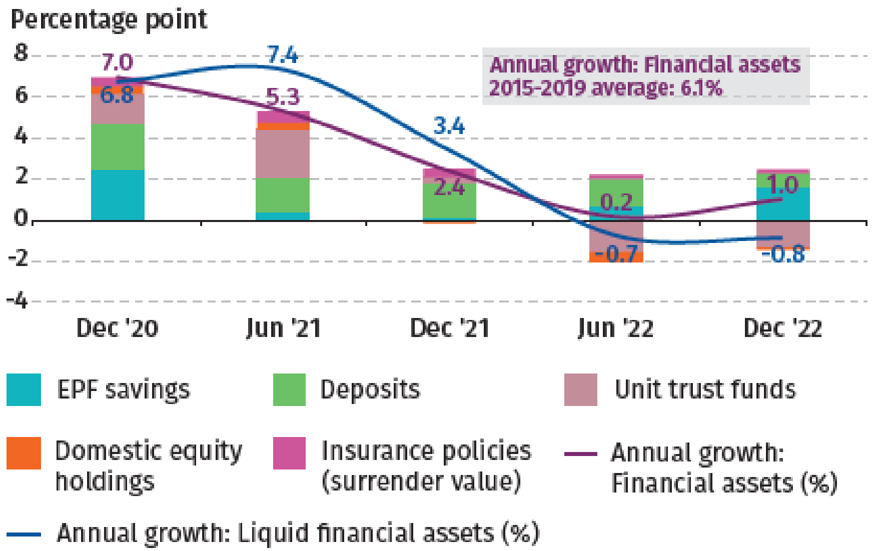
Household sector debt conditions (cont.)

Household Sector – Composition of Debt by Purpose



Note: Figures may not add up due to rounding.

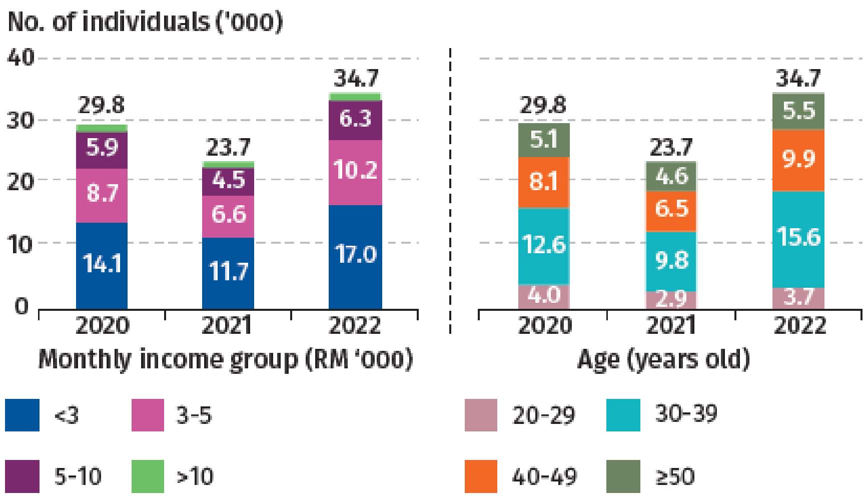
Household Sector – Annual Growth of Financial Assets



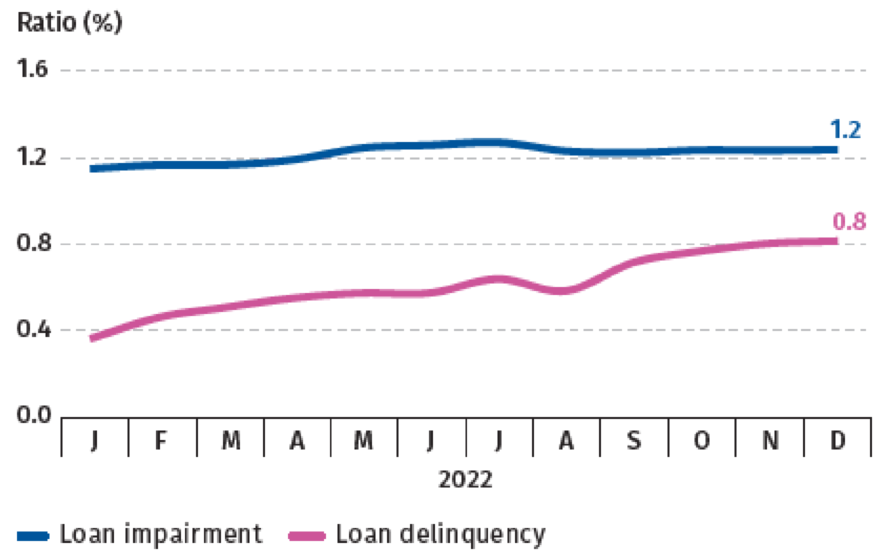
Source: BNM; Bursa Malaysia; DOSM; Employees Provident Fund; Securities Commission

Household sector debt conditions (cont.)

Household Sector – Debt Management Programme Approved by AKPK



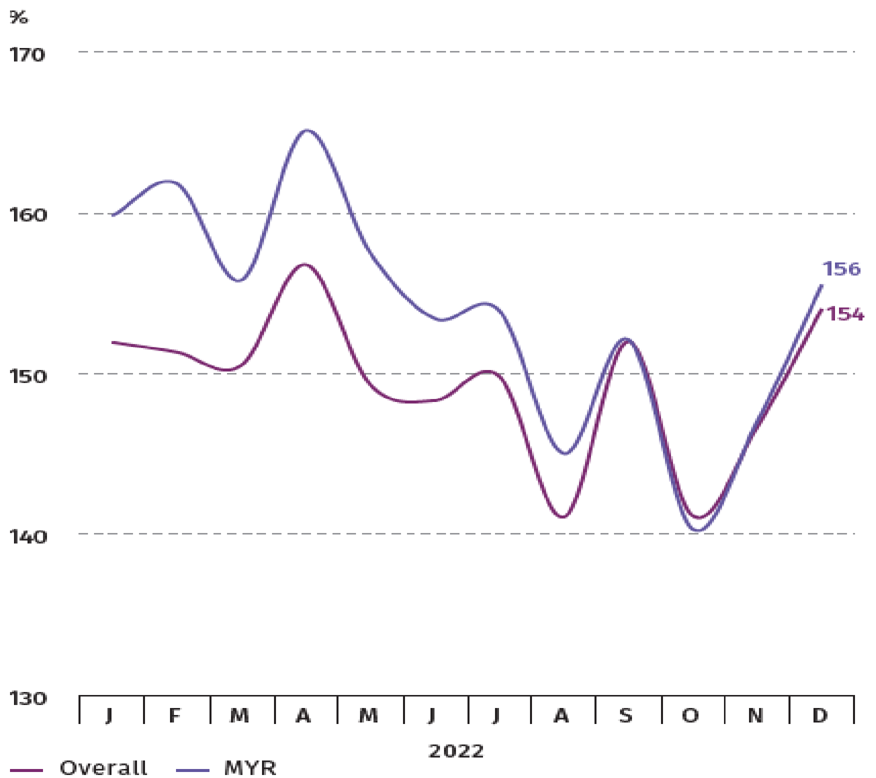
Household Sector – Loan Impairment and Delinquency Ratios in the Banking System



Source: BNM; Credit Counselling and Debt Management Agency (AKPK)

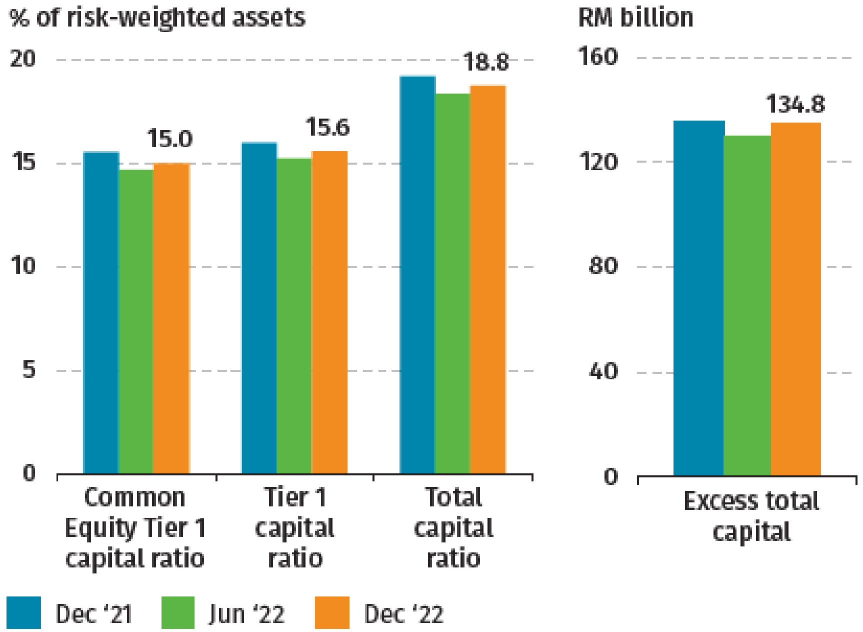
Banks' strong funding and liquidity positions remained supportive of intermediation activities

Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on HQLA and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Banking System – Capitalisation

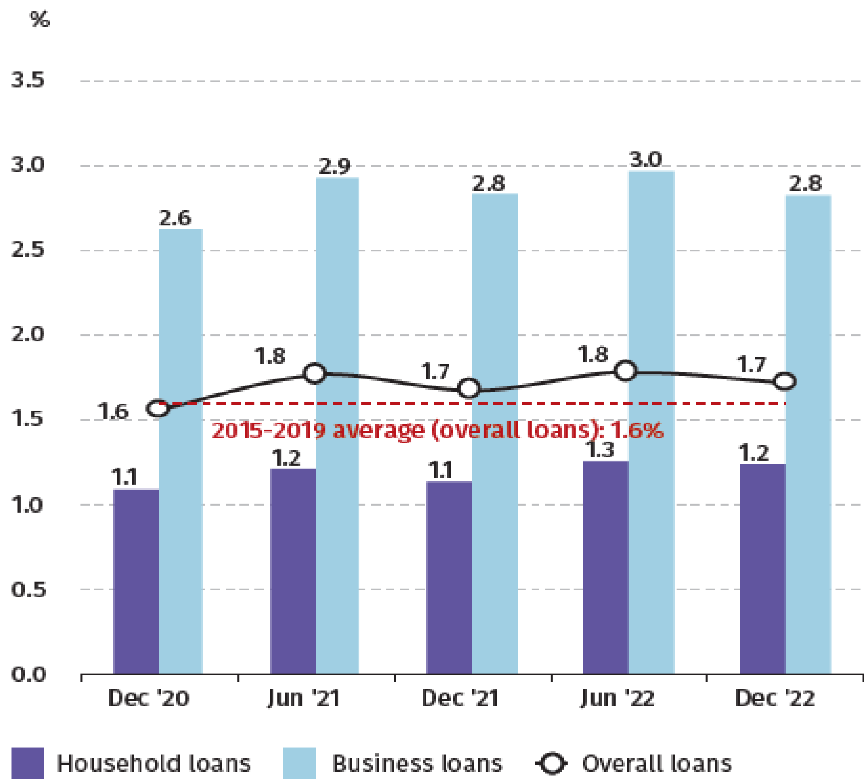


Note: Excess total capital refers to total capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements.

Source: BNM

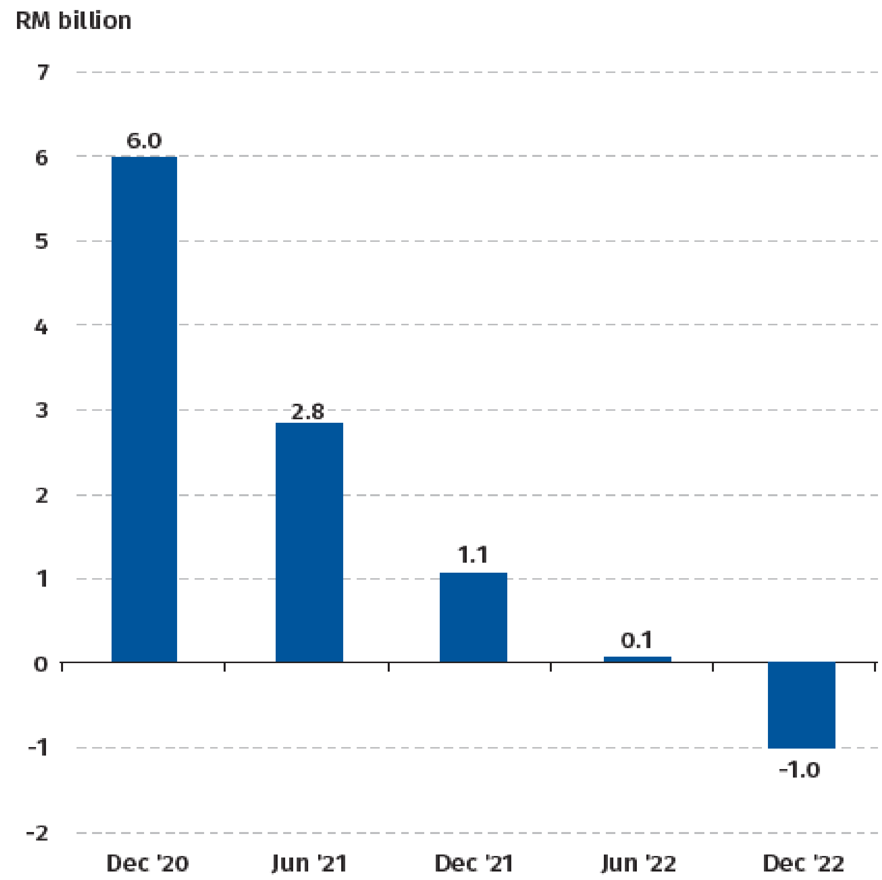
While credit risk outlook improved, banks remained vigilant

Banking System – Gross Impaired Loans Ratio



Note: The loan/financing data from 2021 onwards are based on updated statistical reporting requirements to reflect more accurate data definition and reporting methodology.

Banking System – Half-yearly Change in Provisions



Source: BNM

Spotlights on selected BNM's Box Articles

1. The Exchange Rate and the Malaysian Economy

2. Rebuilding Retirement Savings and Financial Safety Nets in Malaysia

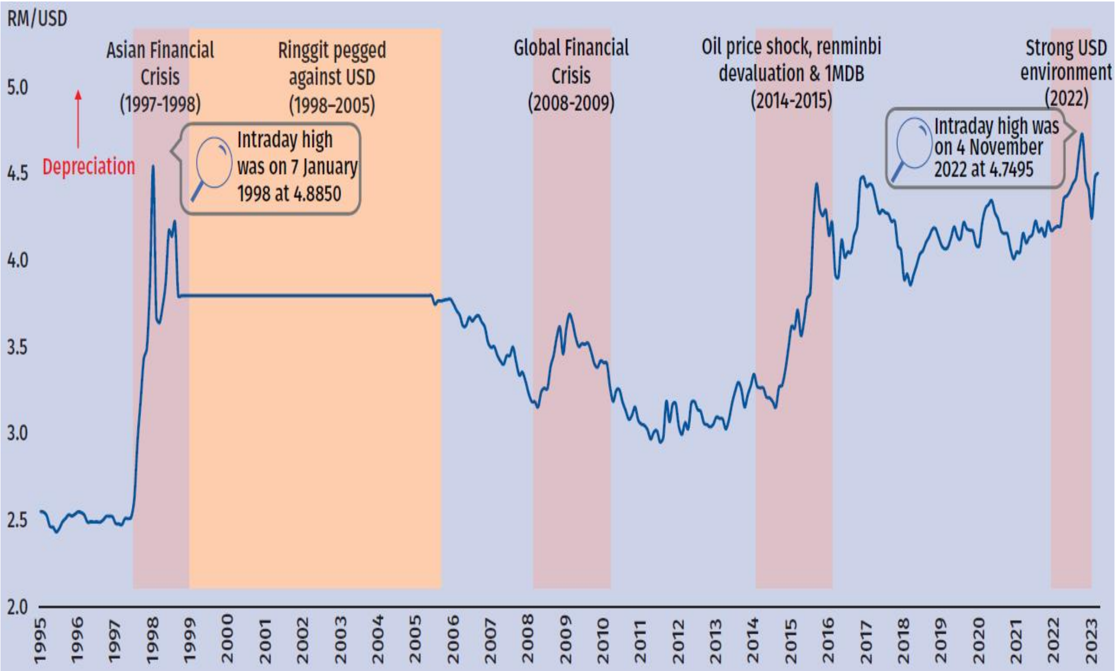
3. Measuring the Journey towards a Low Carbon Economy

4. Navigating Malaysia's Economic Transition towards a Decarbonised Future

5. Analytical Approaches to Assessing Labour Market Conditions and Implications to Monetary Policy

1. The Exchange Rate and the Malaysian Economy

In 2022, the ringgit's performance was in line with global and regional trends and mainly driven by external factors, as NEER was relatively stable



Note:
1. RM/USD is as at end-month, up to 20 March 2023.
2. The RM/USD exchange rate used here is the average of buying and selling rates at noon in the Kuala Lumpur Interbank Foreign Exchange Market.

Nevertheless, a **highly volatile exchange rate** can itself be **a source of vulnerability for the domestic economy**. Large swings in the exchange rate within a very short time can exacerbate uncertainties and cause individuals and firms to delay their decisions to consume and invest. If this is prolonged, it could pose risks to the longer-term domestic economic outlook.*

- **Movements in the exchange rate will influence households' and businesses' decisions**, and thus in aggregate, will impact economic activity. **Large fluctuations in the level can create lasting impact** for businesses, households and the economy.
- Higher demand as higher returns on the US financial assets due to the Fed's rate hike, led to a period of sustained US dollar appreciation.
- Whether the exchange rate appreciates or depreciates, there will **always be winners and losers in the domestic economy**:
  - **Weak ringgit** could increase exporters' earnings but hurt those who consume imported goods and services;
  - **Strong ringgit** benefits those who import goods, services, and travel abroad, but hurts exporters and the domestic tourism industry.

** To mitigate such risks, BNM conducts FX operations to stem excessive volatility and ensure orderly market conditions.*

2. Rebuilding Retirement Savings and Financial Safety Nets in Malaysia

- Malaysia is confronted with the global trend of insufficient retirement savings due to **longer life expectancies and higher dependency ratios.**
- **Income levels remain low, while household indebtedness is relatively high**, with 89.0% of the debt-to-GDP ratio as at December 2021 (Singapore: 69.7%, Indonesia: 17.2%)
- **Numerous special withdrawals of retirement savings** have prematurely **eroded their old-age savings**, particularly by younger individuals between 26 and 40 years old.

Characteristics of An Effective Pension System

ADEQUACY	SUSTAINABILITY	EQUITABILITY
Providing sufficient old-age protection and supporting the accumulation of retirement savings on an individual level	Achieving a sound financial position to ensure continuity amid major social, economic and Demographic changes	Achieving fair redistributive outcomes while upholding the variation in individual savings decisions

Gaps in the current retirement savings framework

Sufficiency: Savings adequacy
- Low number of EPF members meeting the Basic Savings threshold

Exclusion: Access to social protection
- Limited access to social protection for workers in the informal sector

Adaptability: Gaps in old-age assistance and labour market frictions
- Insufficiency of old-age assistance
- Lack of job opportunities for the old-age groups to re-enter the job market

Saving Our Tomorrow: Reforms for A Better Future

Ringfencing of retirement funds
- Allow for greater accumulation of savings alongside structural reforms to boost incomes

Unlocking the potential of data
- Universal registration into EPF and SOCSO to identify needs for uncovered segments
- Enable linking of cash assistance with upskilling programmes

Enhancing old-age assistance and labour participation
- Linking old-age assistance to standard of living
- Hiring incentives for old-age workers

3. Measuring the Journey towards a Low Carbon Economy

Need for carbon accounting framework to support and complement climate action

Clear, consistent and credible carbon accounting framework as critical enabler

- Measurement of credible GHG emissions targets
- Baseline to develop and scale market mechanisms e.g. compliance carbon markets

Growing demand for climate-related disclosures

- Facilitate access to funds and capital
- Address green washing

Pre-conditions to implement a national carbon accounting framework

Legislation	Regulatory framework	Centralised online MRV system	Capacity building
Mandate carbon accounting and reporting of emissions in line with international frameworks	Clear guidelines and procedures detailing requirements for monitoring, reporting and verification	Facilitate data submission/collection, verification, monitoring and analysis	Knowledge and technical assistance for carbon accounting, measurement and reporting

Current and Emerging Regulatory Requirements on Climate and Sustainability Disclosures

International Sustainability Standards Board requirements*

- Global baseline of sustainability disclosures to meet information needs of investors in assessing enterprise value
- Companies are expected to disclose absolute gross GHG emissions level

Impact to Businesses

- **Access to capital** – Investors and financial institutions will require businesses to enhance disclosures e.g.metrics and targets
- **Enterprise valuation** – Businesses long-term viability is assessed based on their adaptability in integrating climate-related risks and opportunities

Carbon Border Adjustment Mechanisms

- Carbon tariffs/fees applied on imported goods based on GHG emissions generated during their production

Impact to businesses

- **Price competitiveness for exports** – Higher price as fees/carbon tariffs will be imposed on goods exported to imposing jurisdiction
- **Potential gain/loss in market share** – Suppliers along the supply chain may gain or lose market share should their client decide to switch to "greener" suppliers.

Bursa Malaysia sustainability reporting framework

- Enhanced sustainability reporting requirements for Main and ACE markets

Impact to businesses

- **Access to capital** – businesses with clear sustainability commitments have better access to financing or investments
- **Penalty for non-compliance** – listed companies that do not adopt may face enforcement actions by Bursa Malaysia which includes potential delisting

*Draft standards

Principles of a Good Carbon Accounting Framework

Transparent

- *Developed following a process that is transparent*

Consistent

- *Little room for different interpretation*

Credible

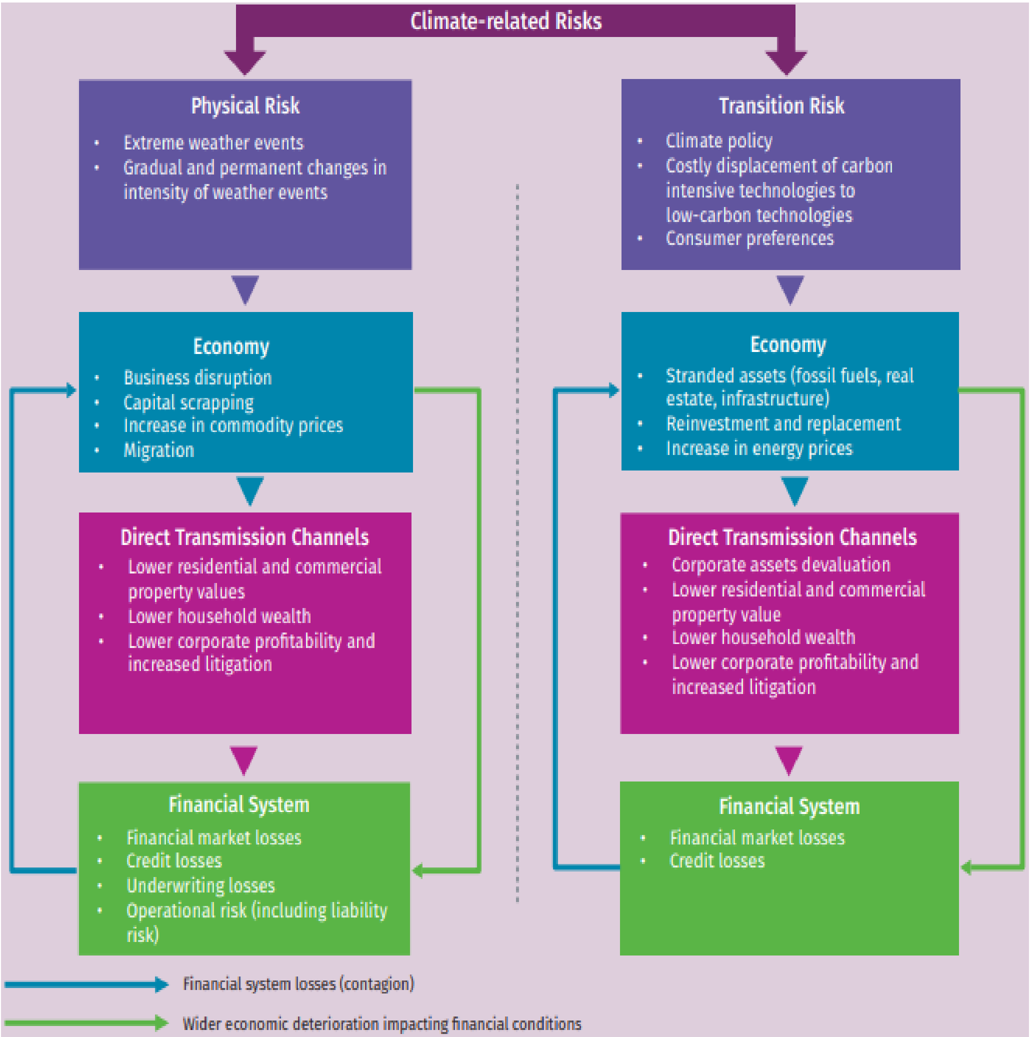
- *Ensure environmental integrity*

Accurate

- *Simple yet accurate*

4. Navigating Malaysia's Economic Transition towards a Decarbonised Future

Climate-related Risks Come from Two Channels - Physical and Transition Risks



Key challenges to Malaysia's climate change mitigation

High dependence on coal for power generation

- Malaysia burns more coal with 43.6% of electricity generated in 2021.

Low energy efficiency in the economy

- 20% of the economy comprises hard-to-abate sectors, which rely heavily on fossil fuel.
- The prevalence of energy subsidies propagates inefficiency

Significant reliance on fossil fuels for fiscal revenue and external competitiveness

- Success in achieving climate pledges results in less demand for fossil fuel.
- Phase-in of tariffs to address carbon leakages could affect up to 64% of Malaysia's exports to the EU.

Climate policies are fragmented and not sufficiently ambitious

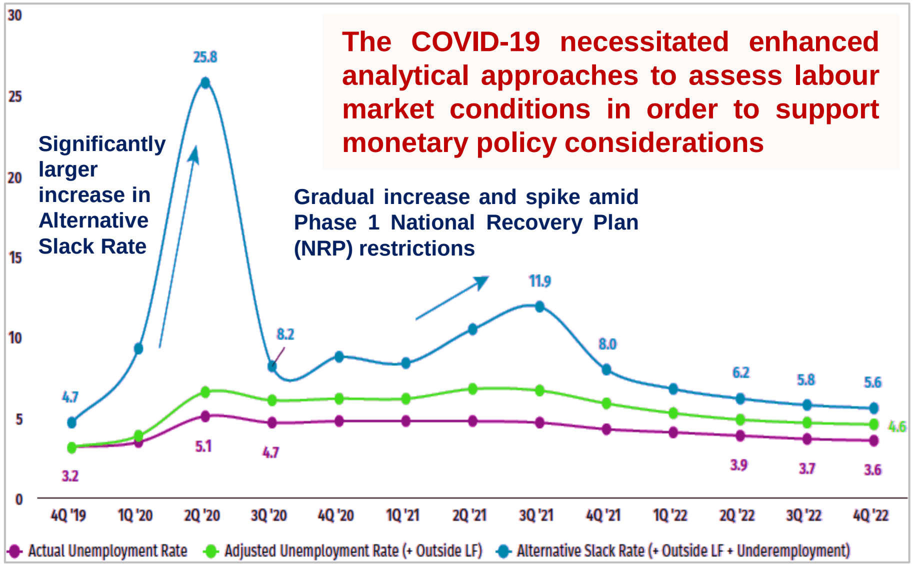
- Malaysia's low ranking (54th) under the climate policy category of the 2023 Climate Change Performance Index, even relative to regional peers.

4. Navigating Malaysia's Economic Transition towards a Decarbonised Future (cont.)

<table>
<tr><th>Policy Levers</th><th>Immediate</th><th>Medium Term</th><th>Long term</th></tr>
<tr><td rowspan="3">Regulation</td><td>Legislate Climate Change Act
Mandate the compliance to Green Building Index for new developments and/or refurbishments</td><td>Mandate GHG reporting followed by capacity building on businesses</td><td>Gazette and increase the area of certain natural assets that can be effective for carbon sequestration</td></tr>
<tr><td></td><td colspan="2">Moratorium on new coal-fired plants</td></tr>
<tr><td colspan="2">Strict deforestation enforcement measures</td><td></td></tr>
<tr><td rowspan="2">Price Reforms</td><td rowspan="2">Fuel subsidy rationalization and redirection to renewable energy</td><td>Carbon pricing implementation</td><td></td></tr>
<tr><td colspan="2">Redirection of carbon pricing revenue towards environment conservation initiatives</td></tr>
<tr><td rowspan="2">Leadership and Governance</td><td colspan="3">Prioritise low-carbon procurement (i.e: install rooftop solar in govt buildings)</td></tr>
<tr><td></td><td></td><td>Adopt sustainable building within urban and rural planning</td></tr>
<tr><td rowspan="2">Investment</td><td colspan="3">Scale up R&D and commercialisation of local green technologies</td></tr>
<tr><td>Incentivise companies to re-skill affected workforce in hard-to-abate sectors
Lifting of tariffs on imports for low-carbon equipment</td><td>Provide incentives to increase carbon sinks, reforestation and better forest management</td><td>Develop a voluntary carbon market aligned with internationally recognized carbon standards (i.e. Verified Carbon Standard (VCS) by Verra; Gold Standard for Global Goals by Gold Standard)</td></tr>
<tr><td rowspan="2">Awareness and Capacity Building</td><td>Promote public awareness of the value-add of CCUS as a key to unlock cleaner energy solutions</td><td colspan="2">Increase public & private partnership in research and use of carbon sequestration technology</td></tr>
<tr><td colspan="3">Promote public awareness on palm-based feedstocks and bio-based solutions for low-carbon practices</td></tr>
</table>

5. Analytical Approaches to Assessing Labour Market Conditions and Implications to Monetary Policy

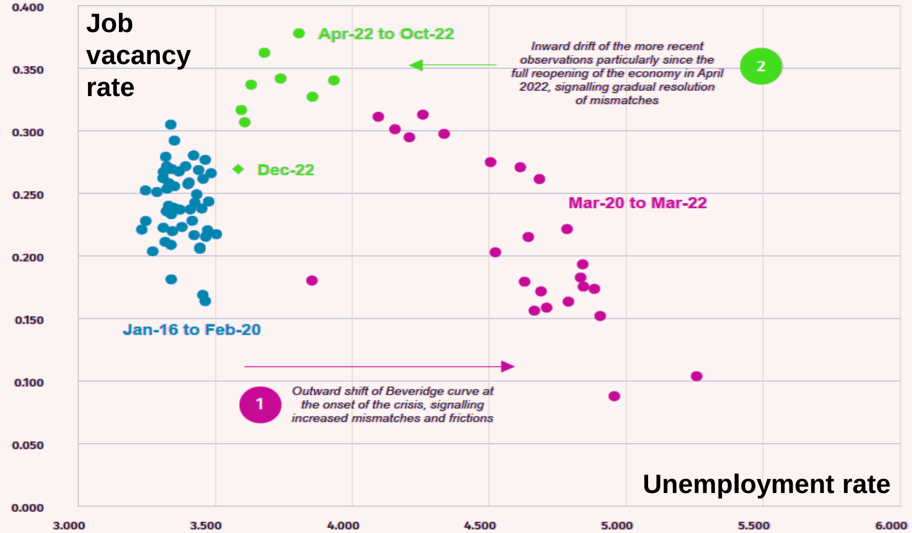
- General unemployment rate is often not revealing the real situation as it is not reflecting the workers exiting labour force due to the pandemic (potential labour force) and underemployment.
- While the slack rate is diminishing in 2022, labour market conditions are far from tight, as evidenced by the forthcoming labour supply and relatively moderate wage recovery.



Note: Adjusted Unemployment Rate and Alternative Slack Rate are estimated by Bank Negara Malaysia staff using data from Department of Statistics, Malaysia. Bank Negara Malaysia estimates of underemployment include employed persons who were temporarily not working due to movement controls.

Source: DOSM; BNM estimates

Beveridge Curve (Job Vacancy Rate vs. Unemployment Rate)



- Slack in the labour market is expected to reduce further, supported by continued strength in the employment recovery momentum.

Upward pressures	Downward pressures
Strength in employment recovery	Forthcoming labour supply*
Implementation of minimum wage hike	Higher production efficiency
Increase in overtime payments	Low bargaining power of workers

** Return of discouraged workers^ and re-entry of foreign workers.*

^ Discouraged workers refer to workers who previously left the labour force, potentially due to lack of economic opportunities or increase in caregiving obligations during the COVID-19 pandemic.

社会经济研究中心

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THANK YOU

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