



社会经济研究中心 SOCIO-ECONOMIC RESEARCH CENTRE

Malaysia's Quarterly Economy Tracker (Jan-Mar 2023)

Be Vigilant to Economic and Financial Headwinds

Lee Heng Guie
Executive Director

13 April 2023

Agenda



Global outlook is shaped by headwinds and tailwinds



Malaysia will slow and normalise but not in recession in 2023



Addressing structural issues to enhance economic resilience



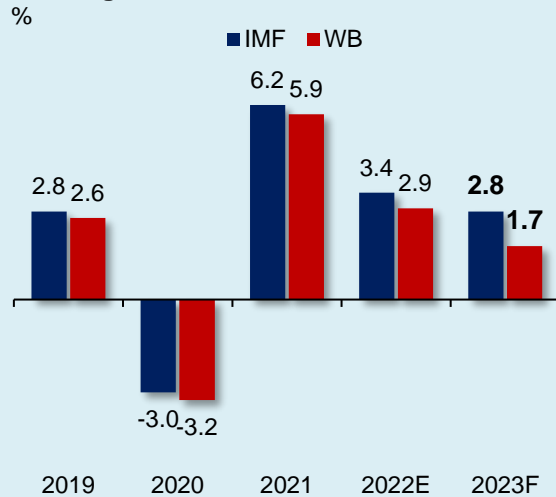
Time to safeguard retirement safety net

Global Economic Outlook

- *Global headwinds remain though outlook is less gloomy than previously thought*
- *China's reopening adds pulse to global growth*
- *Global headline inflation remains elevated*
- *Global monetary tightening cycle is seemingly over*
- *Lingering fears of contagion in the banking sector*

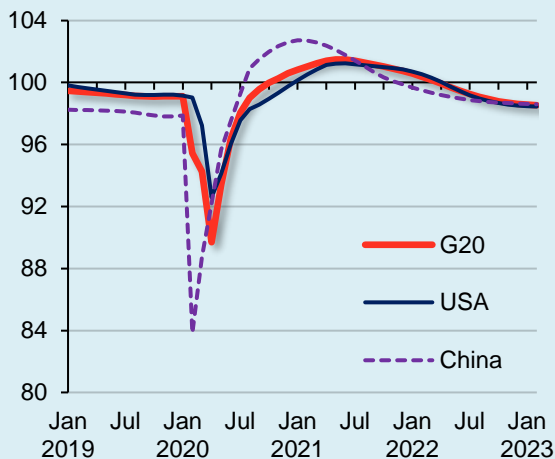
The global economy is seemingly less gloomy than it was, but headwinds persist

Global growth estimates

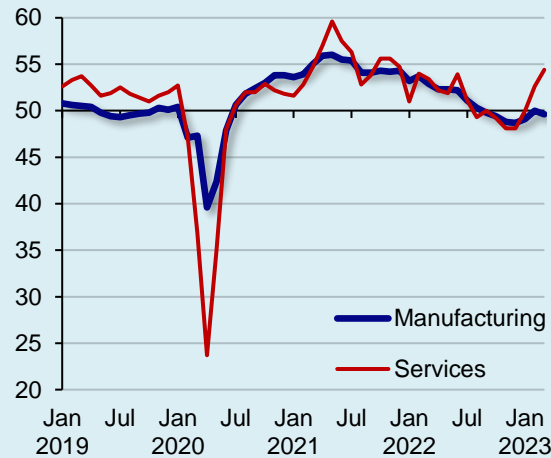


OECD Composite Leading Indicators (CLI)

100=Long-term average

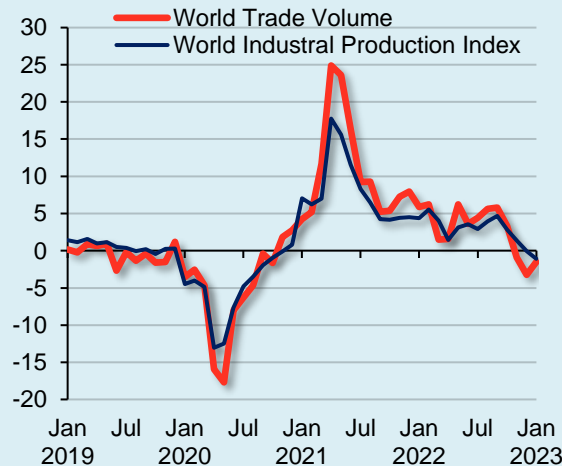


Global PMI for manufacturing & services
50=Threshold



World trade volume & industrial production

%, YoY



- Global recessionary risks have receded; all eyes on China's post reopening path.
- Coupled with a prolonged military conflict in Ukraine and geopolitics, medium-term global outlook remains challenging.
- Upturn in the services sector is expected to aid global growth; industrial activities yet to confirm a rebound.
- Headline inflation readings have eased from their peak levels, but not for core inflation.
- Global monetary tightening is less aggressive and seemingly over for some central banks.

Source: International Monetary Fund (IMF); World Bank (WB); S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands

Performance of major economies

United States

Manufacturing and services PMI

50=Threshold



Unemployment rate and wage growth

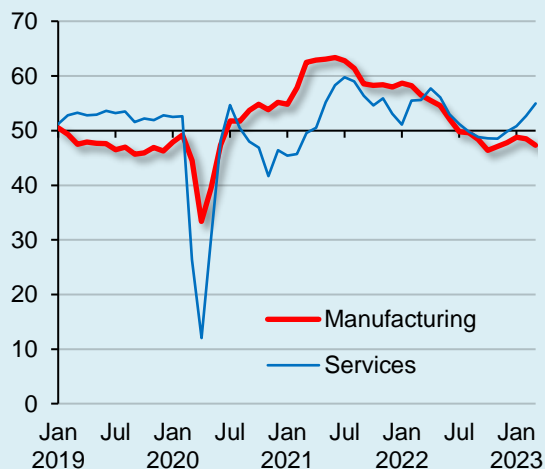
% / %, YoY



Euro Area

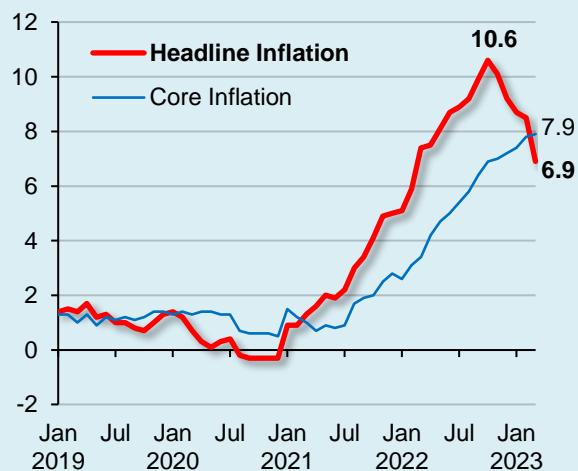
Manufacturing and services PMI

50=Threshold



Headline & core inflation

%, YoY



The United States – Soft landing amid lingering concerns about recent banks turmoil

- The economy is still relatively resilient.
- Steady job market and wage growth support consumption.
- Fears of contagion in the banking sector.

Euro Area – A glimpse of hope for expansion

- Services PMI rose strongly in 1Q 2023 – solid expansion in demand.
- Core inflation on record high, yet to see a peak.
- Resurgence of energy prices may dampen the price level and consumption behaviour.

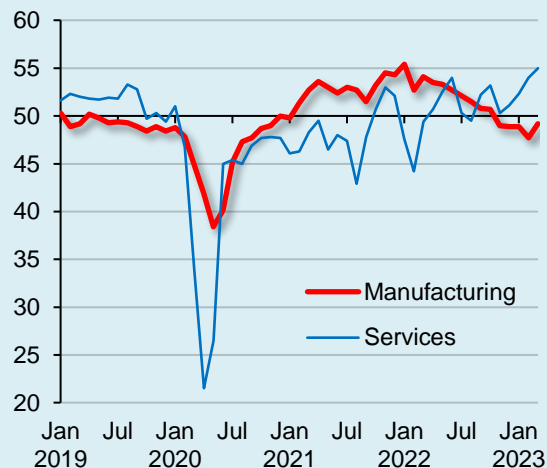
Source: Institute for Supply Management (ISM); US Bureau of Labour Statistics; S&P Global; Eurostat

Performance of major economies (cont.)

Japan

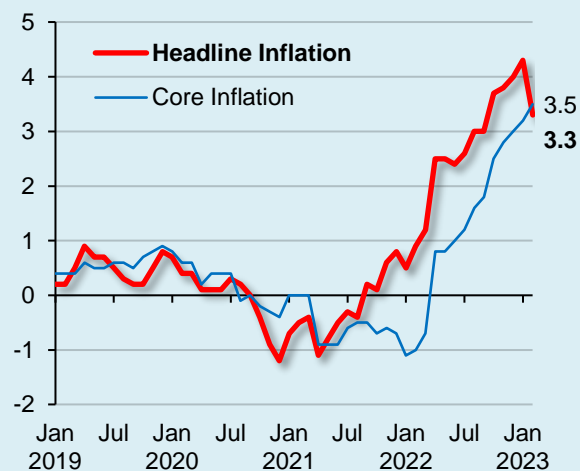
Manufacturing and services PMI

50=Threshold



Headline & core inflation

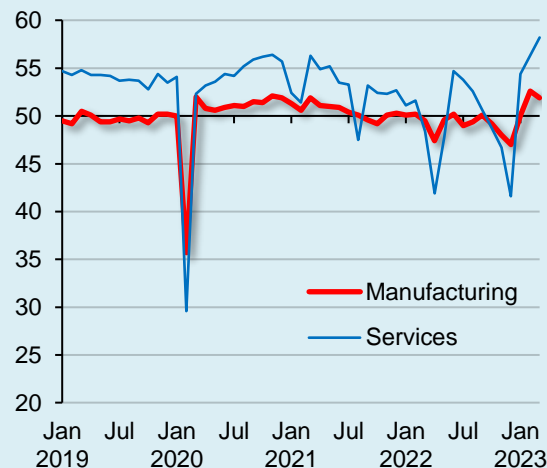
%, YoY



China

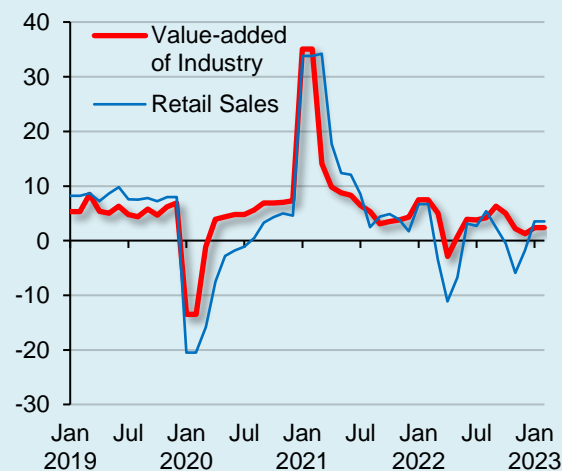
Manufacturing and services PMI

50=Threshold



Industrial and retail activities

%, YoY



Japan – Fragile recovery

- Barely grew in 4Q 2022.
- Services activities accelerate.
- Increasing core inflation rate vs. negative interest rate – will new Governor exit the ultra-easy monetary policy?
- Fresh cost of living package to support consumption.

China – All eyes on China's post reopening path

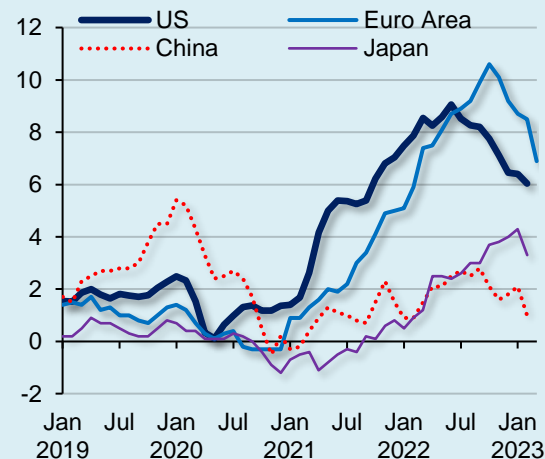
- Industrial and retail trade growth off to a decent start in 2023.
- However, external demand is turning down from the peak.
- Stable fixed investment growth amid sluggishness in real estate.

Source: S&P Global; Statistics Bureau of Japan; National Bureau of Statistics of China

Headline inflation pressures eased but remained elevated

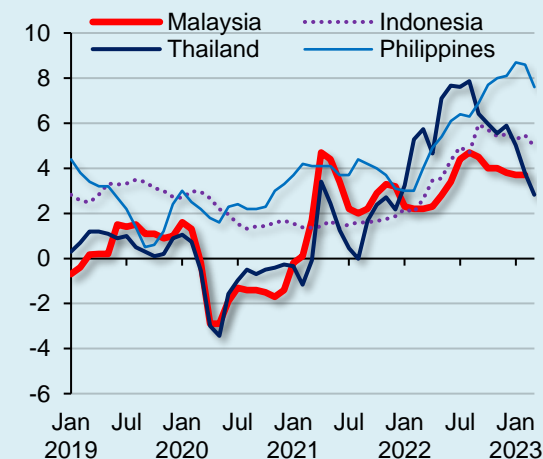
Inflation – Advanced economies

%, YoY



Inflation – Selected ASEAN economies

%, YoY

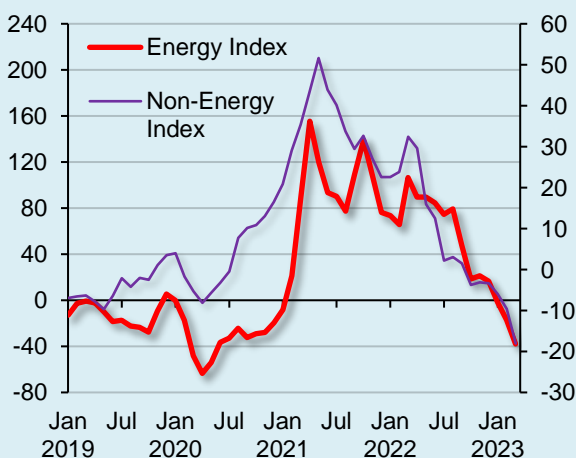


Energy index

%, YoY

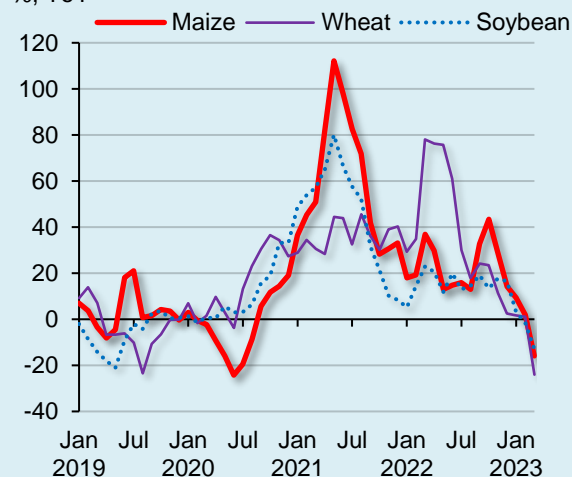
Non-energy index

%, YoY



Selected global food prices

%, YoY

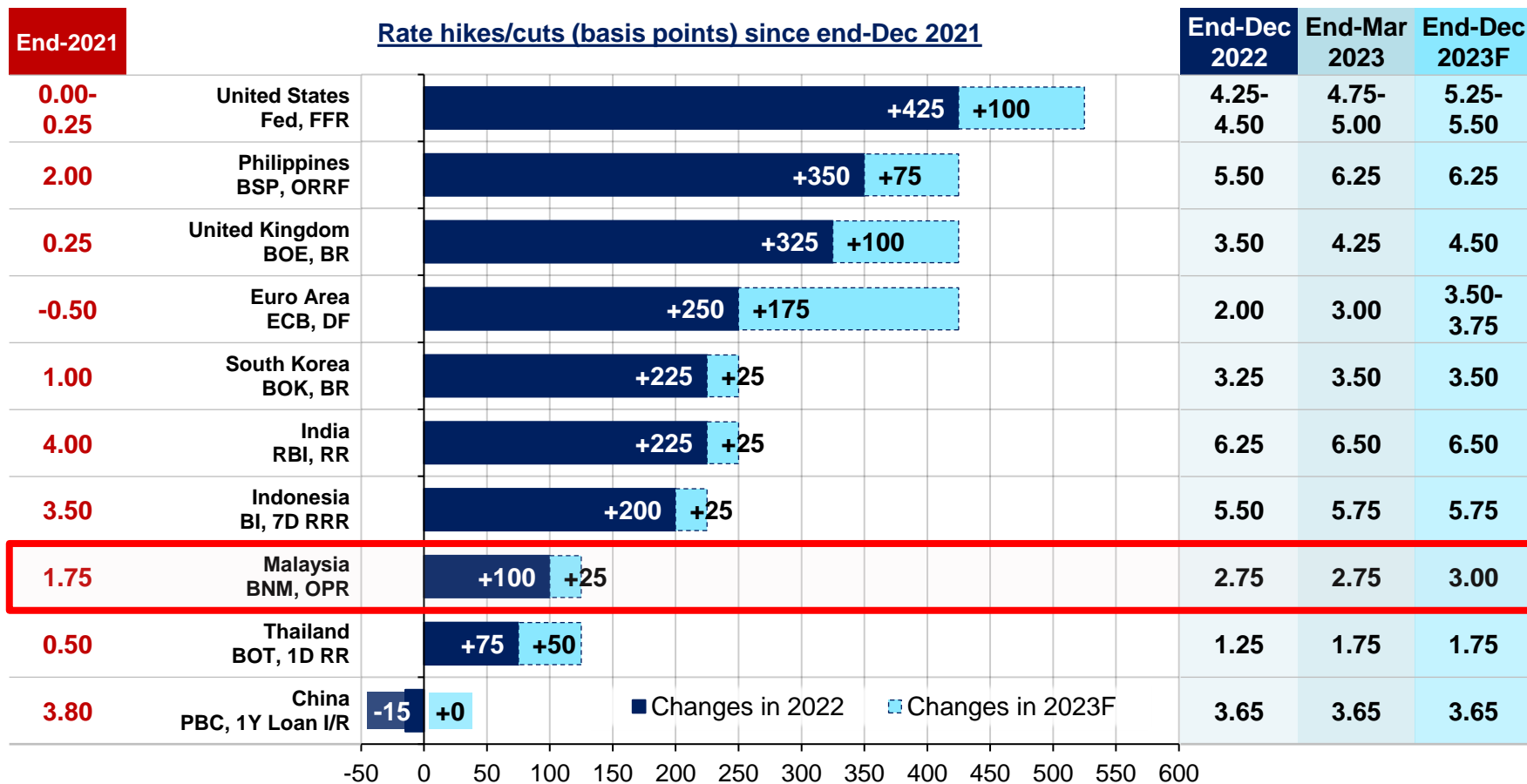


- Though still staying way above pre-pandemic's level, overall price level, particularly non-energy commodities have eased from their peak.
- Price stickiness effect will not cool the core inflation much.
- Resurgence of energy prices following a surprise oil production cut by OPEC+ may re-push the headline inflation up.
- Prolonged military conflict in Ukraine remains a wild card.
- While global demand is slowing, China's reopening is timely to strike for a balancing act.

Source: World Bank; Various officials for inflation data

Global monetary tightening continues, albeit less aggressive and is seemingly over for some central banks

Policy rate (%)



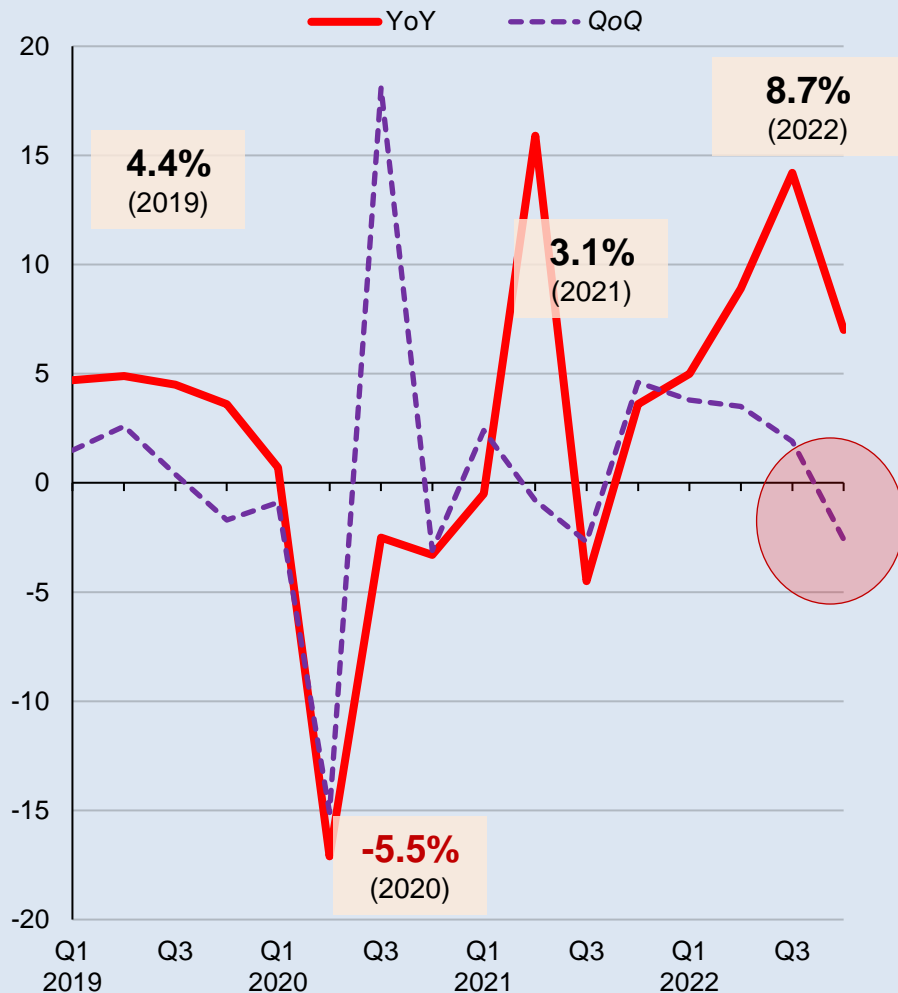
Source: Various officials

Malaysia: Anchoring growth on domestic demand

- *The Malaysian economy will slow and normalise*
- *Off to a slow start in 1Q 2023 on weakening exports and a normalisation of domestic demand*
- *Targeted fiscal support and stronger revival in tourism-led services*
- *Private investment improves moderately amid costs pressure*
- *However, inflation and cost of living pressures continue to weigh on domestic spending*

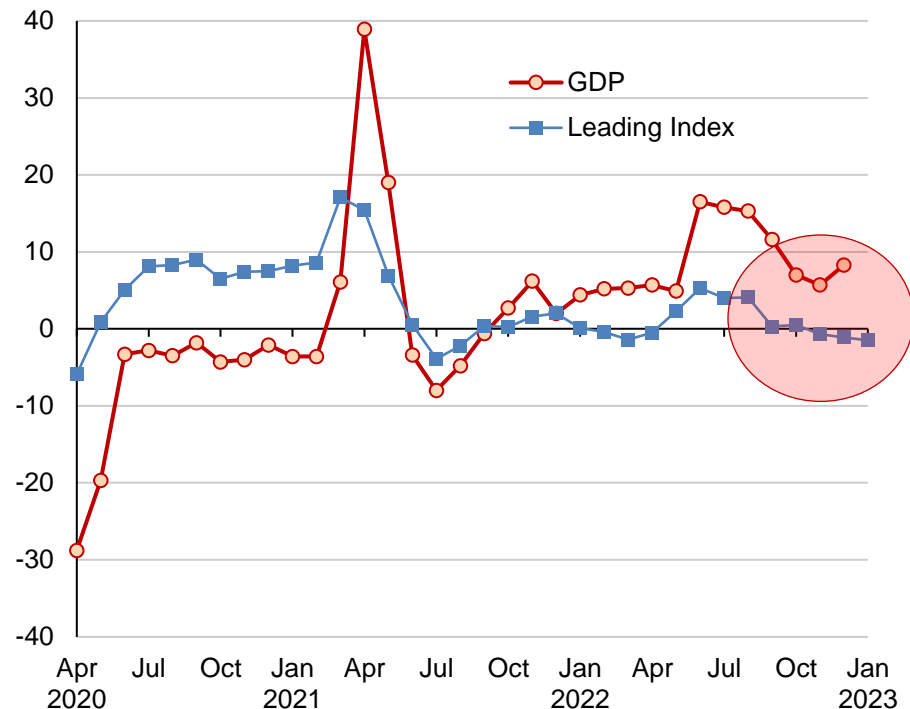
A slow start in early 2023

Malaysia's real GDP growth
%



- Real GDP grew strongly by 8.7% in 2022 (+3.1% in 2021).
- Economic growth is estimated to slow and normalise to 4.1% in 2023
- Moderating exports; post pent-demand normalisation

Monthly GDP and leading index growth
%, YoY

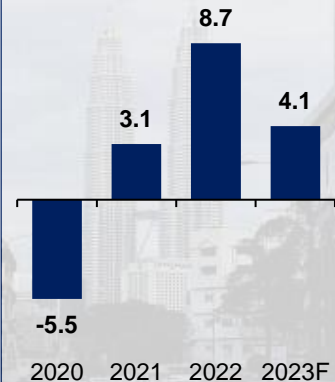


Source: Department of Statistics, Malaysia (DOSM)

2023 GDP growth hinges on domestic demand as exports slow

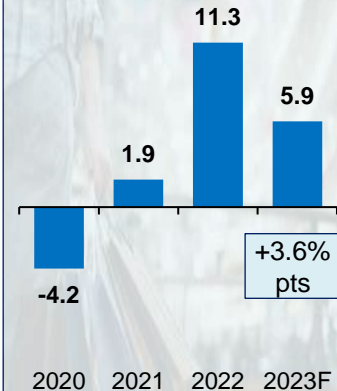
Overall

Overall GDP

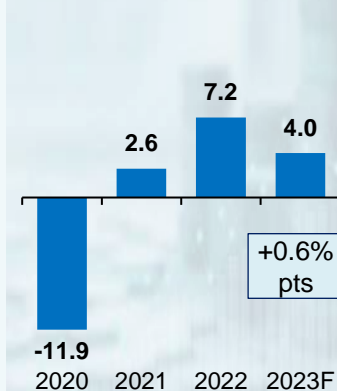


By type of expenditure

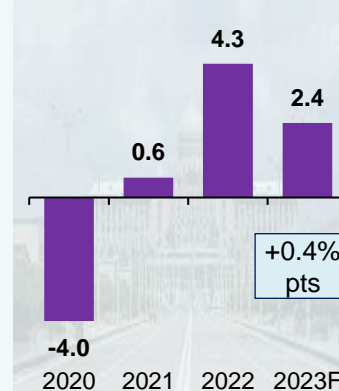
Private consumption



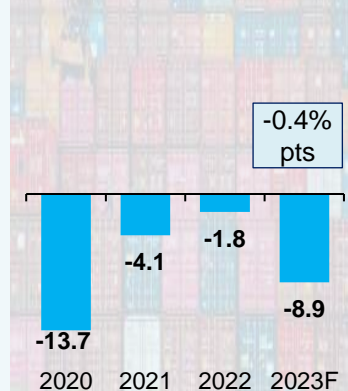
Private investment



Public sector

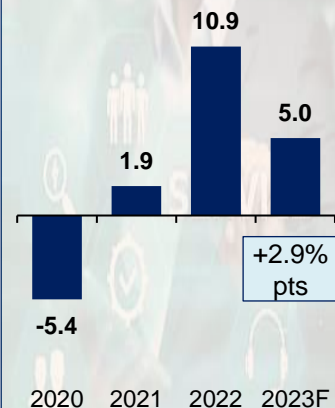


Net exports

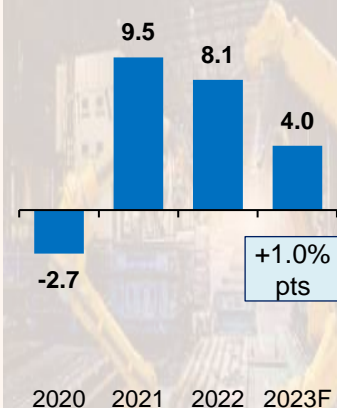


By kind of economic activity

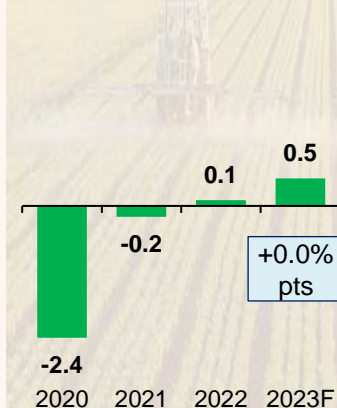
Services



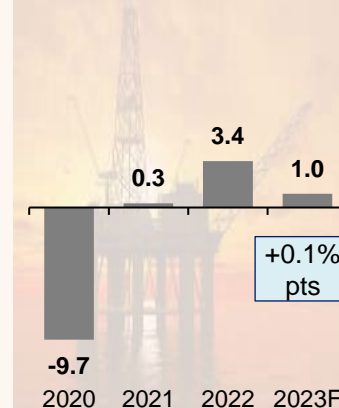
Manufacturing



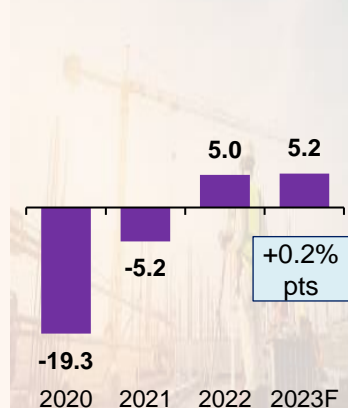
Agriculture



Mining and quarrying



Construction

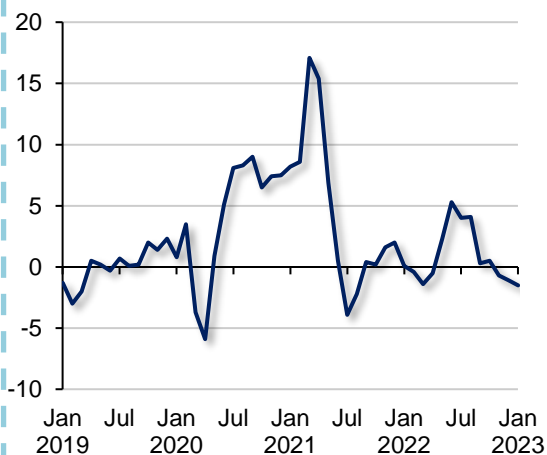


Source: Department of Statistics, Malaysia (DOSM); SERC's estimates and forecast

Tracking Malaysia's economic indicators

Leading indicators

%, YoY



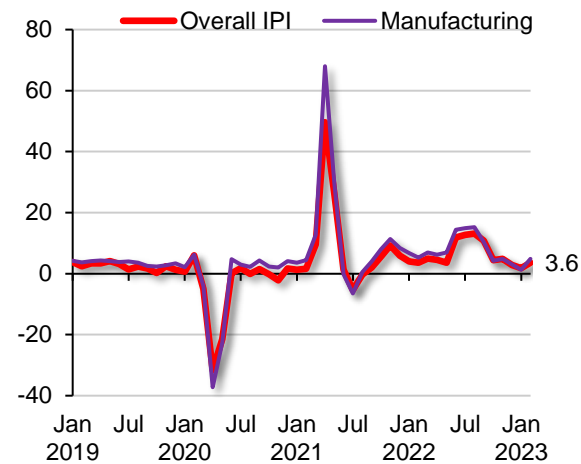
Purchasing Managers' Index (PMI)

50=Threshold



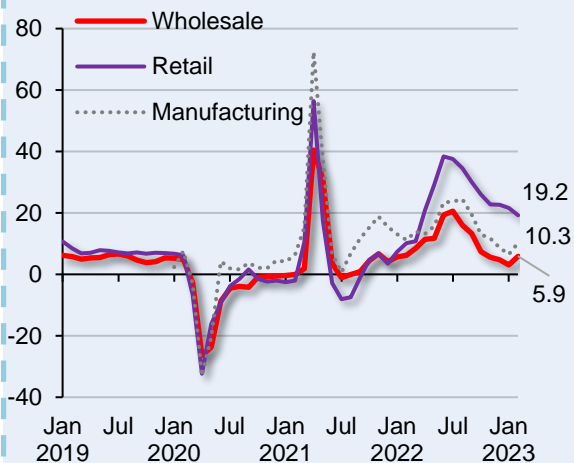
Industrial production index (IPI)

%, YoY



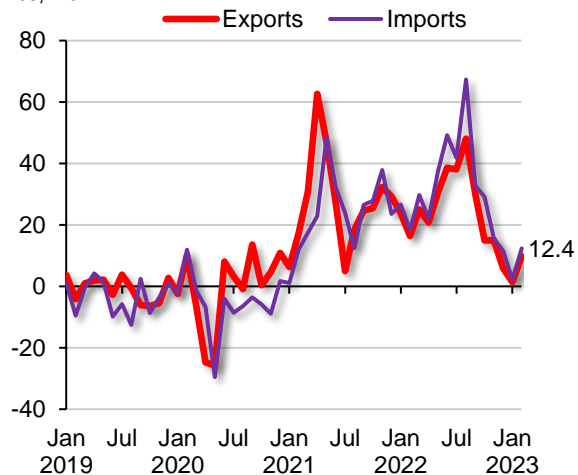
Wholesale, retail & manufacturing sales

%, YoY



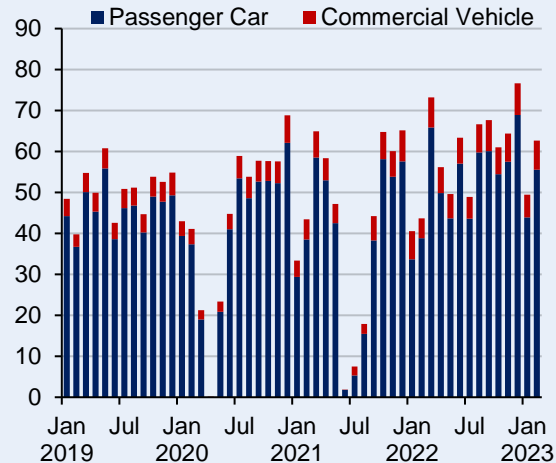
External trade

%, YoY



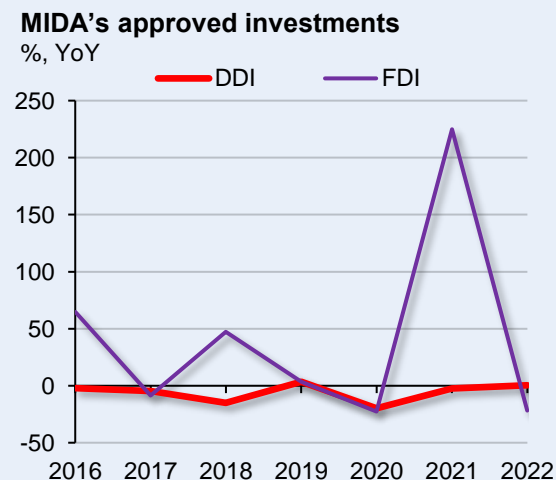
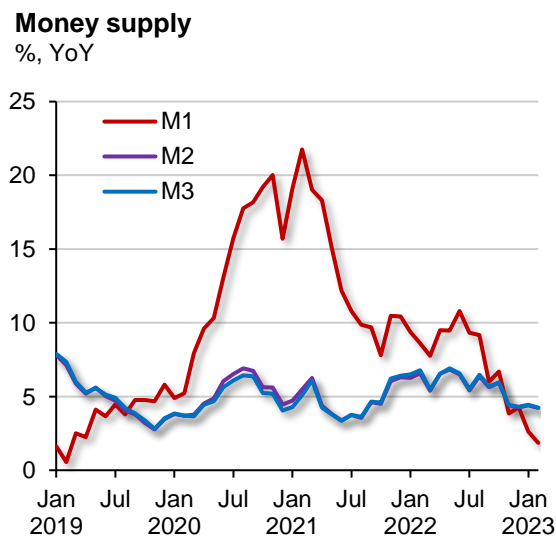
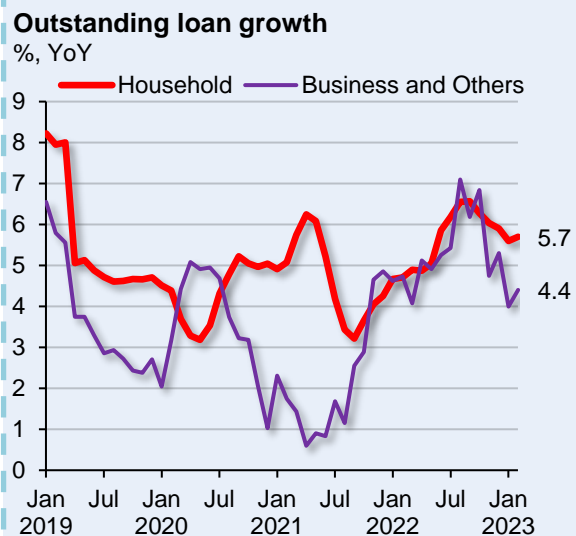
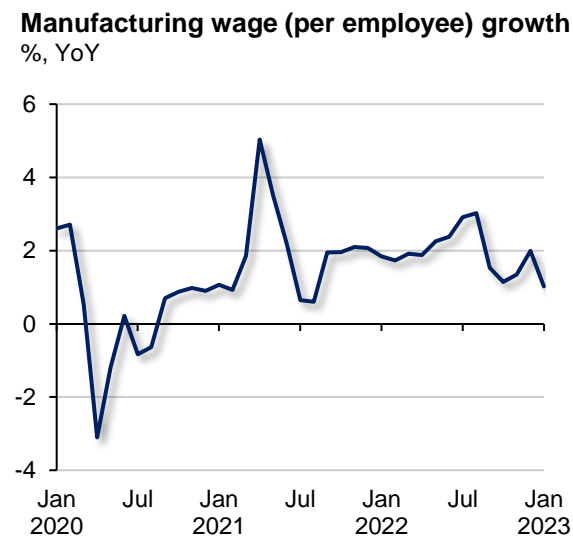
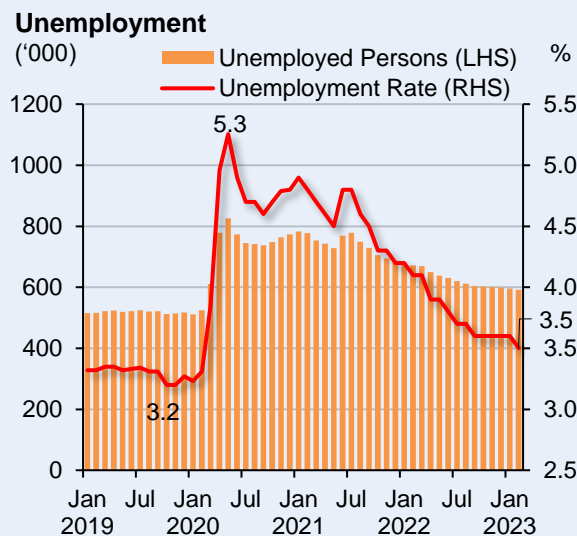
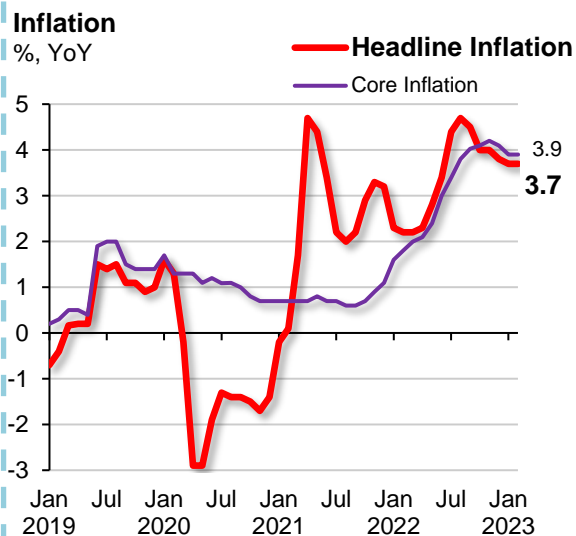
Sale of passenger & commercial vehicles

Thousand units



Source: Bank Negara Malaysia (BNM); Markit; DOSM; Malaysian Automotive Association (MAA)

Tracking Malaysia's economic indicators (cont.)

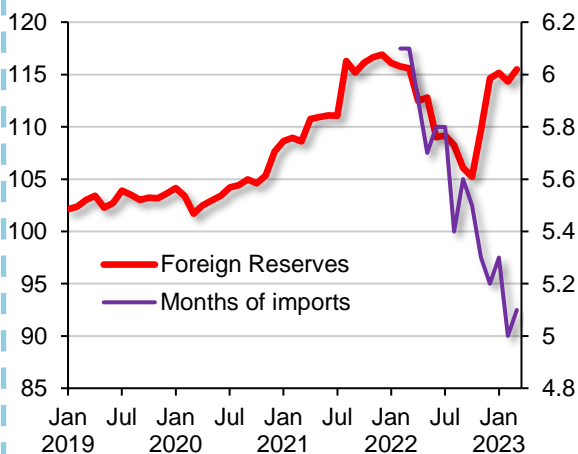


Source: DOSM; BNM; MIDA

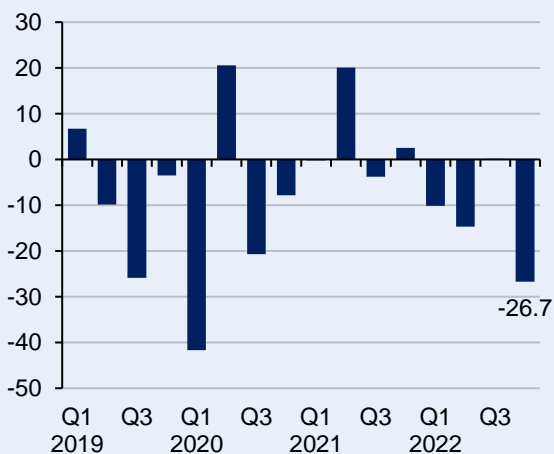
Tracking Malaysia's financial indicators

Foreign reserves
US\$ billion

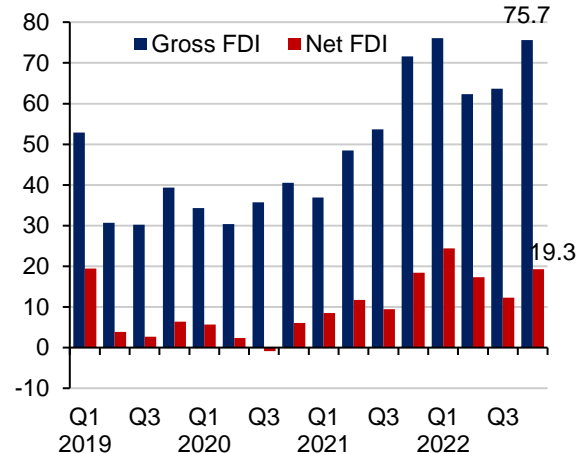
Months of imports of goods and services



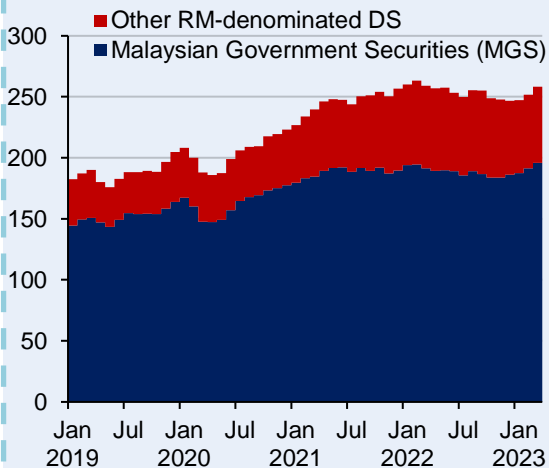
Net portfolio investment
RM billion



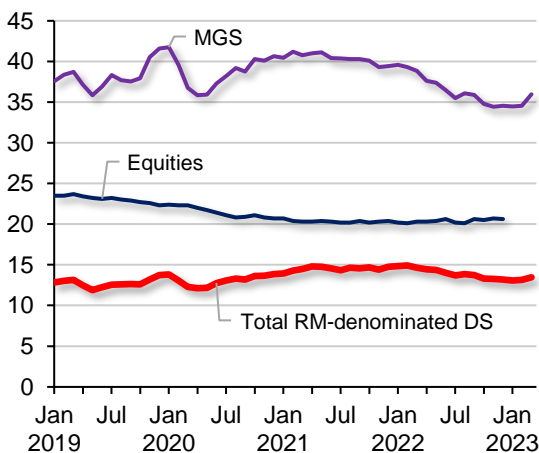
Foreign direct investment (FDI)
RM billion



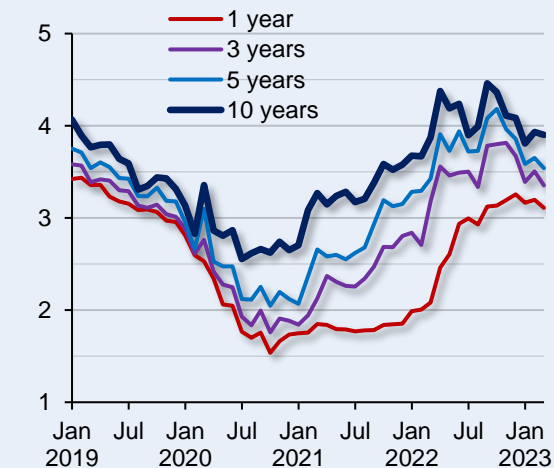
Foreign-owned debt securities (DS)
RM billion



Foreign-owned debts and equities
% share



MGS yield
%



Source: DOSM; BNM; MIDA

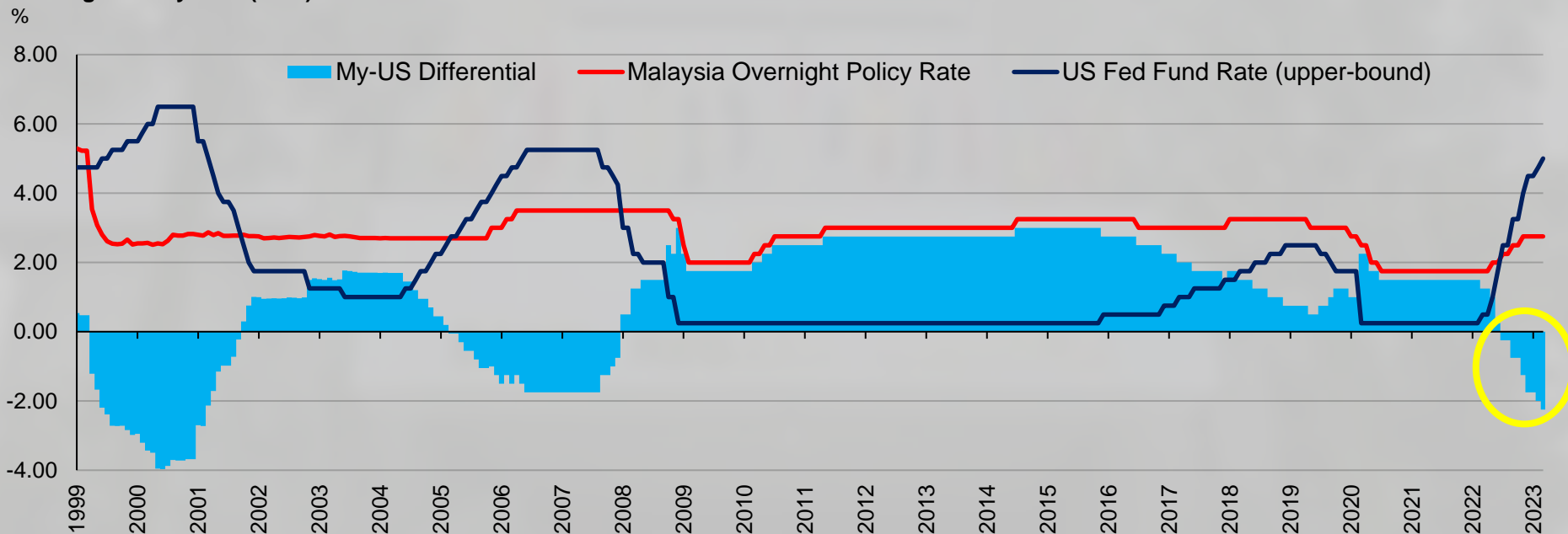


Bank Negara Malaysia Monetary Policy Stance

- Global headwinds remain
- Domestic economy will continue to grow, albeit slower
- Inflation will moderate but remain elevated
- Current stance is “accommodative and supportive of economic growth”
- Any changes to the OPR depend on how resilient the economy and consumer inflation behaves

Overnight policy rate (OPR) is estimated to reach 3.00% in 2023

Overnight Policy Rate (OPR) vs. Fed Fund Rate



Source: BNM; Federal Reserve

Note: BNM adopted Overnight Policy Rate (OPR) as policy rate since 2004.

Upside and downside risks to Malaysia's growth prospects in 2023

UPSIDE RISK



Fiscal support for **inflation** and **cost of living**



Efforts in **mitigating** the **downside risks**



Strong improvement in **tourism** sector



Continued **improvement** in the **labour market**

DOWNSIDE RISK



Inflationary pressure



Climate-related disasters



Prolonged geopolitical conflict



Lingering recessionary risks. Fears of contagion banking sector stress

The Great Reset for Malaysia – Address structural issues



Low productivity and technology adoption

- Malaysia's labour productivity grew moderately by 1.4% pa in 2011-2021 vs. Singapore (2.5%); Thailand (2.5%), Vietnam (5.0%) and Philippines (3.5%)



Talent and skilled manpower shortages; high youth unemployment

- As at 4Q 2022:
 - Skilled workers (27.9%)
 - Semi-skilled (59.4%)
 - Low-skilled (12.7%)
- Youth (aged 15-24) unemployment rate at 11.8% (331k persons) at December 2022, but still higher than pre-pandemic (2019:10.4%)



Low wages; dependency on foreign workers

- Median monthly wages grew by 2.5% pa in 2016-2021 to RM2,250
- Share of compensation of employees (CE) to GDP in 2021 at 34.8% vs. South Korea (47.9%); Australia (47.7%); Singapore (39.4%); and the Philippines (36.7%)
- As at end-2022, 1.46 million foreign workers (9.2% of total employment)



Uneven strength of private investment

- Private investment growth stagnated (4.9% pa in 2021-2022 vs. 4.8% pa in 2015-2019)
- Private investment share to GDP at 15.4% in 2022 vs. average 17.0% of GDP in 2015-2019
- FDI average RM53.6 billion per year in 2020-2022 vs. RM41.1 billion in 2015-2019

The Great Reset for Malaysia – Address structural issues (cont.)



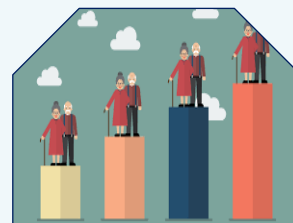
Limited fiscal space; high debt and liabilities

- 26th consecutive year of deficit
- Federal Government's direct debt stood at RM1.08 trillion (60.4% of GDP) at end-Dec 2022; and is projected to be around 62% of GDP by end-2023
- Debt and liabilities (80.9% of GDP in 2022)



High household debt; low savings buffer

- Household debt at 81.2% of GDP as at Dec 2022
- 76% of households have savings less than three months of living expenses



Ageing population; demographic dividends

- In 2022, more than 7% of the population are aged 65 and above, meeting the conventional international definition of an “aging society”
- Higher economic and fiscal implications – healthcare, community services, potential decline GDP, and decline in tax revenue



Retirement savings crisis

- 6.67 million or 51.5% of EPF members younger than 55 years old had less than RM10,000 in their accounts as of end-2022, up from 6.08 million a year ago

Time to Safeguard Retirement Safety Net

- *Malaysia is heading towards an ageing population (an estimated 3.5 million people or 7% of Malaysians who are above the age of 65). It may become an ageing nation by 2030 with people aged 60 years and over surpassing 15% of the working population.*
- *Our social protection system will not be sufficient to financially support the vulnerable group. Inadequate savings due to structural issues; retirement savings have been depleted by multiple withdrawals of the EPF contributions.*
- *Critical policy interventions to strengthen social safety net (rebuild a viable retirement system) in ensuring the vulnerable group will be protected adequately during the retirement age.*

Aging population heightens need for retirement safety net



Why we need a viable retirement safety net?

- Longer life expectancies, aged population and a shrinking working-age population will strain the social protection system. **Inadequate retirement savings will put the vulnerable group a long way from retirement.**
- Retirement safety net is essential for **providing a steady stream of income and financial support that can help old-age retirees maintain their living standards and cope with unexpected expenses or shocks in retirement.**



According to RAND Labour and Population Research, **every 10% increase in the elderly population aged 60 and above would result in a 5.5% potential decline in GDP per capita growth.**



Where are we now?

- Malaysia is heading towards an ageing population. The World Bank estimated that **over 20% of the population is expected to be above 65 years old by 2056**, making Malaysia a “super-aged society”.
- **Low-income levels and high household indebtedness** with household debt-to-GDP ratio of 81.2% as of Dec 2022 (vs. Thailand (89.3%), Singapore (69.7%), and Indonesia (17.2%) as at end-Dec 2021).
- **Savings capacity was further dampened by a large presence of informal sectors.** Informal workers have limited access to current social protection framework that mainly serves the formal employment sector.
- In 2022, **only 30% of EPF active formal sector members** have basic savings of at least RM240,000 for retirement. **81% of total contributors will not have enough savings to live above the poverty line in their retirement.**

Source: RAND; World Bank, Bank Negara Malaysia (BNM); National Authorities

Retirement in Malaysia: Concerning picture

Retirement crisis looms ahead due to demographic shifts



Causes of low retirement savings

LOW WAGE STRUCTURE

44% of EPF active formal members earn < **RM2,000/ month**

81% of EPF active formal members earn ≤ **RM5,000/ month**

LACK OF MINIMUM WAGE POLICY PRIOR TO 2014

Monthly minimum wage

1 Jan 2019 **RM1,100** >> 1 May 2022 **RM1,500**

LOW FINANCIAL LITERACY

Financial Literacy Rate[^]

34% Malaysia (2020) **VS** **57%** OECD (2020)

78% Singapore (2019)

92% Hong Kong, China (2020)

[^] Financial literacy refers to financial knowledge.

DECREASING FERTILITY RATE

1950 **6.2** children per woman

2022 **1.7** children per woman

INCREASING LIFE EXPECTANCY

	AVERAGE	MALE	FEMALE
1950	57 y/o	55 y/o	58 y/o
2020	75 y/o	73 y/o	77 y/o

RISING DEPENDENCY RATIO

1950 1 elderly per 6 working-age adults

2040 1 elderly per 2 working-age adults

Source: EPF, DOSM, OECD

News: EPF members' savings worrying after the COVID-19 and RM145.5 billion withdrawal

TheStar

EPF: Low savings due to inconsistent contributions



NATION

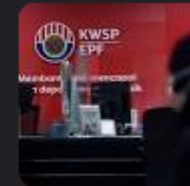
Friday, 10 Mar 2023

KUALA LUMPUR: Lower starting salaries for those who began their careers before the implementation of the minimum wage in 2013 are among the factors contributing to low Employees Provident Fund (EPF) savings that are typically below RM10,000 among members aged between 40 and 54 years.

m Malay Mail

EPF reveals two million members have savings below RM10,000; 2.64 million members not contributed in years

KUALA LUMPUR, March 9 — The Employees Provident Fund (EPF) today revealed that two million members aged between 40 and 54 have less than...



G FMT

Economist sounds alarm over Malays' low EPF savings

The median savings of seven million Malay EPF members has dropped to RM5,500 post-pandemic.



东方ONLINE

推荐

国内

国际

视频

财经

社会

地方

U玩食

国内 发布于 2023年01月24日 19时33分 · 最后更新 2个月前 · 整理: 叶芯璐

667万名55岁以下会员退休金存款低于1万 KWSP: 情况令人担忧

东方日报

5原因导致40-54岁公积金会员储蓄偏低| 国内

(桂莎白沙罗9日讯) 雇员公积金局 (EPF) 说, 年龄介于40-54岁的公积金会员总体储蓄率偏低是由5项原因导致, 其中包括会员起薪较低及新冠肺炎疫情期间提...



安华：仍享全额派息风险低 EPF存款抵押没违法

Source: Various news media



A big challenge for a majority of EPF members

How much money do I need to retire?

The Employee Provident Fund (EPF) has set the recommended minimum retirement savings at **RM240,000 by age 55 to cover basic retirement, or at least RM600,000 to retire comfortably in major cities.**

!! However, only 19% of EPF members have basic savings, with RM1,000 per month^ for retirement.

^ Based on the calculation of average life expectancy (75 years old) with RM240,000 for retirement.

In 2022	Active Formal Sector Members	By Age Group			
		< 30	31-40	41-50	51-55
 Basic Savings Achievement by Age (RM240,000 by 55)	30% 2.2M	15% 480k	44% 918k	46% 638k	36% 174k
 ADEQUATE SAVINGS ACHIEVEMENTBY AGE (RM600,000 by 55)	5% 326.4k				

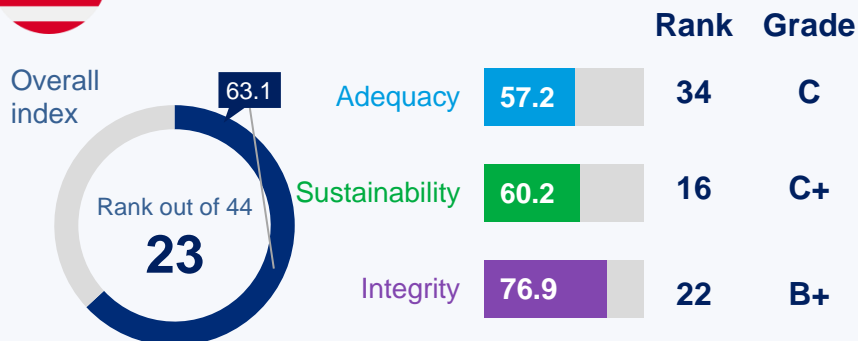
Source: EPF

It is crucial to rebuild retirement safety net in Malaysia

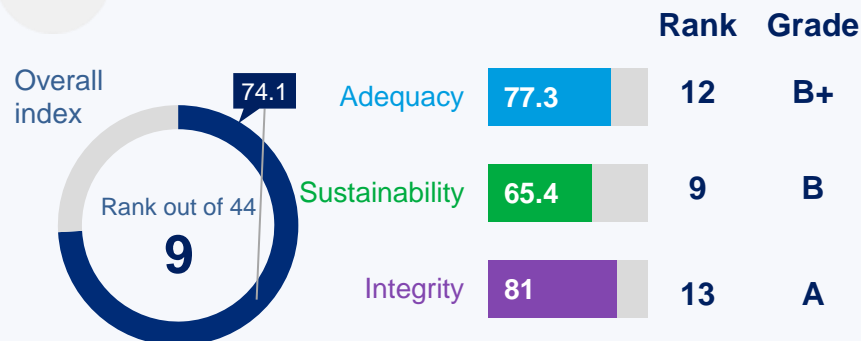
Global Pension Index (2022)



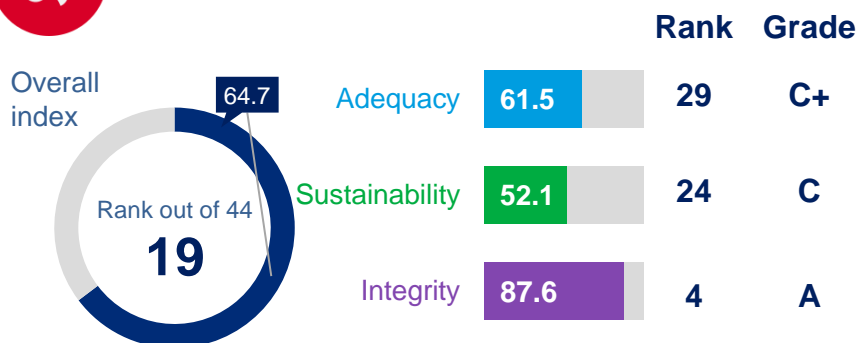
Malaysia



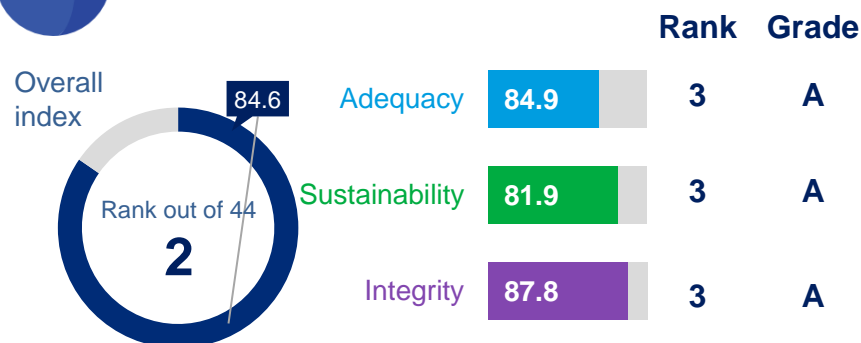
Singapore



Hong Kong



The Netherlands

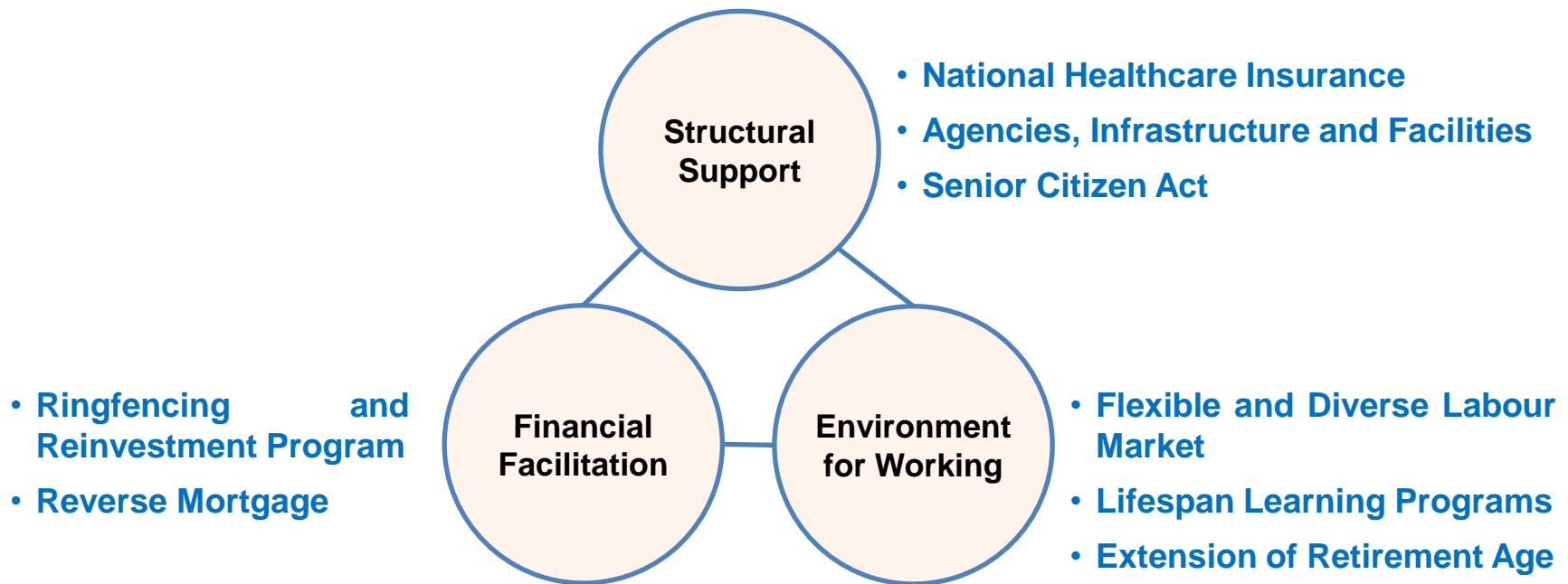


Adequacy and sustainability fall within C or C+, indicating shortcomings that should be addressed.

Source: Mercer CFA Institute Global Pension Index 2022

Build a viable social protection system for old-age society

- Ageing population is a critical global issue and Malaysia is no exception. **Policy interventions and measures should continue to enhance a multi-pillar system, emphasising on Adequacy, Sustainability and Equitability.**
- Three main areas: **Structural Support, Financial Facilitation and Environment for Old-age Working.**



Structural support for ageing population



National Healthcare Insurance (NHI)

- **The heavily subsidised healthcare system is not fiscally sustainable over the long term** as it balances between accessibility and affordability of public healthcare. It is essential to **restructure the healthcare system to be more responsive to future needs** to support old-age healthcare with growing life expectancy.
- **Establish National Healthcare Insurance (NHI) as a long-term measure to enhance the healthcare services' quality and funding sustainability of healthcare services.** Five crucial elements for the implementation: (a) A collectively-oriented approach; (b) Risk-sharing principles; (c) Equity access and wealth distribution; (d) Upholding sustainability; and (e) Low administrative costs.



Agencies, Infrastructure and Facilities

- **Establish a designated division to coordinate the initiatives and programs by Ministries and agencies,** focusing on taking care of the old-age society.
- **Special attention must be given to handling the needs of the elderly, especially on their livelihood, healthcare, housing and transportation needs.**
- According to the Malaysian Healthy Ageing Society (MHAS), Malaysia lacks professionals to handle senior citizens (i.e. there are only 40 geriatricians and about 2,000 occupational therapists in Malaysia). In addition, the need for more hospice carers is another problem faced by many families facing difficulties in looking after elderly people who are mentally challenged (especially for the low-middle-income group).

Structural support for ageing population (cont.)



Senior Citizen Act

- Introduce Senior Citizen Act to safeguard the well-being of senior citizens who are left alone (unattended) at home without providing proper care or being abandoned elsewhere. As parents can be charged for abandoning their children, the same legal action can be taken against children who neglect their parents.
- However, due consideration must be given to children's financial ability to provide parental care. Other social issues could arise, such as causing family disputes and disharmony. It is important to learn from regional peers, such as Singapore's Maintenance of Parents Act.

Singapore's Maintenance of Parents Act (Cap. 167B)

- | | |
|-----------------------------------|---|
| Description: | <ul style="list-style-type: none">• Singapore residents aged 60 years old and above, who are unable to maintain themselves adequately, can claim maintenance from their children in the form of monthly allowances or lump-sum payments. |
| Responsibility of tribunal | <ul style="list-style-type: none">• The tribunal responsible for determining the maintenance order consists of at least three members, including a president with the qualifications of a district judge.• The tribunal decides the amount of maintenance to be paid based on criteria such as financial needs, earning capacity, expenses incurred, and the physical health of the parent and children. |

Friendly environment for ageing population



Flexible and Diverse Labour Market

- **Reforms the labour market and social security policies** can improve sustainable retirement's living standard as well as embrace the multigenerational workforce. In particular, focus on generating appropriate employment opportunities for elderly individuals wishing to rejoin the workforce, such as **wage subsidies and flexible arrangements**.
- For example, in Netherlands, social security contributions can be reduced to EUR7,000 annually when hiring an employee aged 50 or above. This will reduce the financial burden on employers while at the same time encouraging employers to hire more senior citizens.

Lifelong Learning Opportunities



- **Lifelong learning opportunities are important given constant changes in skill set requirement.** But training and skill development are not always equally offered to elderly employees.
- While the lack of time, financial resources and information asymmetries often prevent elderly employees from seeking training, **strategies such as micro-credentialing and nonlinear educational paths, returnships, internships, apprenticeships and job sharing should be designed to meet the targeted needs of elderly employees.**
- For instance, the German government has launched a national initiative called “Working and Learning in a Digital World” to promote digital skills and competencies among workers of all ages. The initiative includes measures such as digital learning platforms, online courses, and digital literacy campaigns.

Friendly environment for ageing population (cont.)



Extension of Retirement Age – An option?

- **Increase the statutory retirement age** can allow individuals to work longer with a more secure financial future and higher social security benefits. Arguably, greater experience and expertise in the workplace could raise productivity, innovation, and competitiveness of organisations and industries.
- However, the extended working period could increase exposure to physical and mental stress, fatigue, disability, and mortality. It could also reduce the time and resources available for leisure, family, and community activities. More importantly, it could reduce the availability of jobs and career advancement opportunities for younger employees, as well as create inter-generational conflicts and resentment over scarce resources and benefits.

Overview of statutory retirement age in selected countries (2022):

 France	63.5	 China	60	 Australia	66
 Germany	65.7	 Indonesia	57	 Canada	65
 UK	66	 Singapore	65	 Japan	65
 US	66	 Thailand	55	 Korea	62

Source: OECD

Financial facilitation to support retirement



Ringfencing and Reinvestment Program (BNM's proposal)

- **Ringfencing and reinvestment programs can lengthen the accumulation phase of retirement savings** by reinvesting a portion of savings that would otherwise have been withdrawn upon the retirement age, similar to Akaun Emas available to EPF retirees.
- For example, in Singapore, an individual's savings are transferred to a retirement account at age 55; therefore, the amount will be ringfenced to continue growing until age 65. The savings will then be disbursed on monthly basis with a monthly top-up if monthly annuity payments are below SGD1,300.



Reverse Mortgage

- **Reverse mortgage provides a steady source of income to supplement other retirement savings or pension fund.**
- It allows retirees to stay in their homes and maintain their lifestyle without monthly mortgage payments as long as the borrower lives in the home as their primary residence.
- Cagamas Bhd, the National Mortgage Corporation of Malaysia has introduced Skim Saraan Bercagar in December 2021 with an allocation of RM100 million to kick start the reverse mortgage scheme in Malaysia. This scheme is gradually expanding to cover senior homeowners from Klang Valley to Johor Bahru and Penang in October 2022, and subsequently Ipoh, Seremban and Malacca city in December 2022.





社会经济研究中心 SOCIO-ECONOMIC RESEARCH CENTRE

谢谢
THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.
Tel : 603 - 4260 3116 / 3119
Fax : 603 - 4260 3118
Email : serc@accimserc.com
Website : <http://www.accimserc.com>