



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

COPE Investor Conference 2023

Malaysia's path to Growth: Priorities for Action

Lee Heng Guie
Executive Director

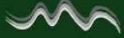
12 July 2023

Agenda



Global Economy is Chugging Along Amid Risks

normalise



Malaysia is Normalising but Not In Recession in 2023



Key Developments to Watch



Address Fundamental Issues of Growth

Global Outlook

- *Global economy has slowed but avoids recession in 2023*
- *Are the US recession fears still lurking in 2H 2023 or 2024?*
- *China's recovery is uneven*
- *Global inflation pressures are easing; core inflation has persisted above historical averages*
- *Tightening cycle is nearing its end; higher rate may stay for a while*

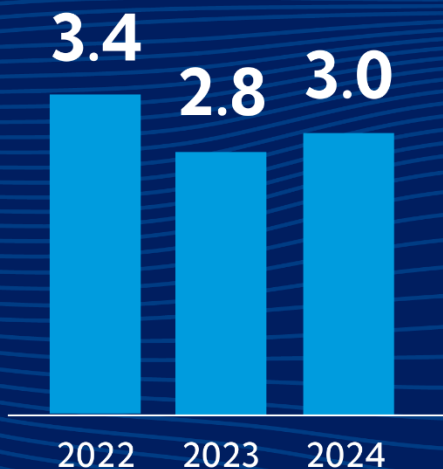
Global economy in slow growth; not in recession

WORLD ECONOMIC OUTLOOK APRIL 2023

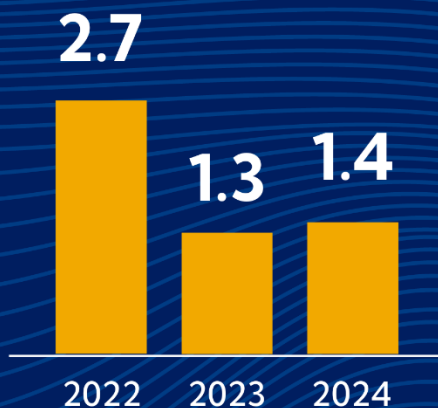
GROWTH PROJECTIONS

(Real GDP growth, percent)

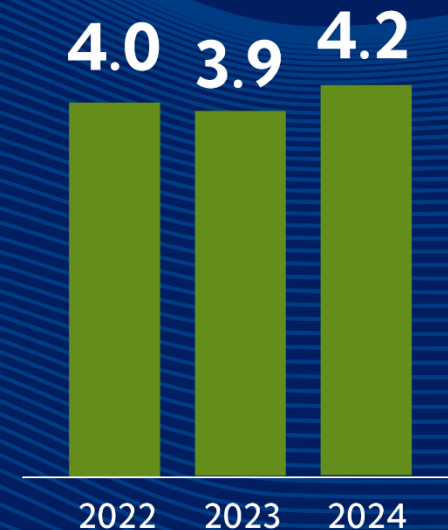
GLOBAL ECONOMY



ADVANCED ECONOMIES



EMERGING MARKET & DEVELOPING ECONOMIES

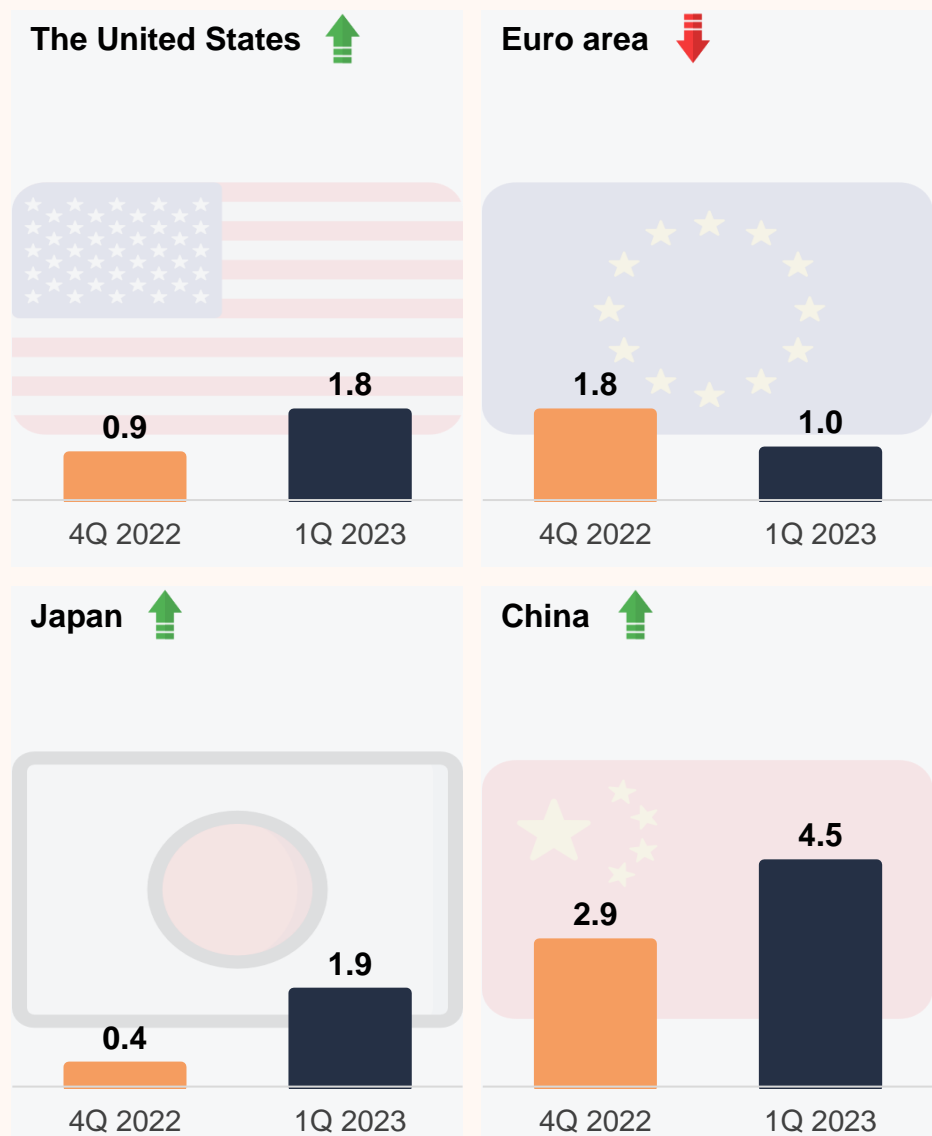


INTERNATIONAL MONETARY FUND

IMF.org #WEO

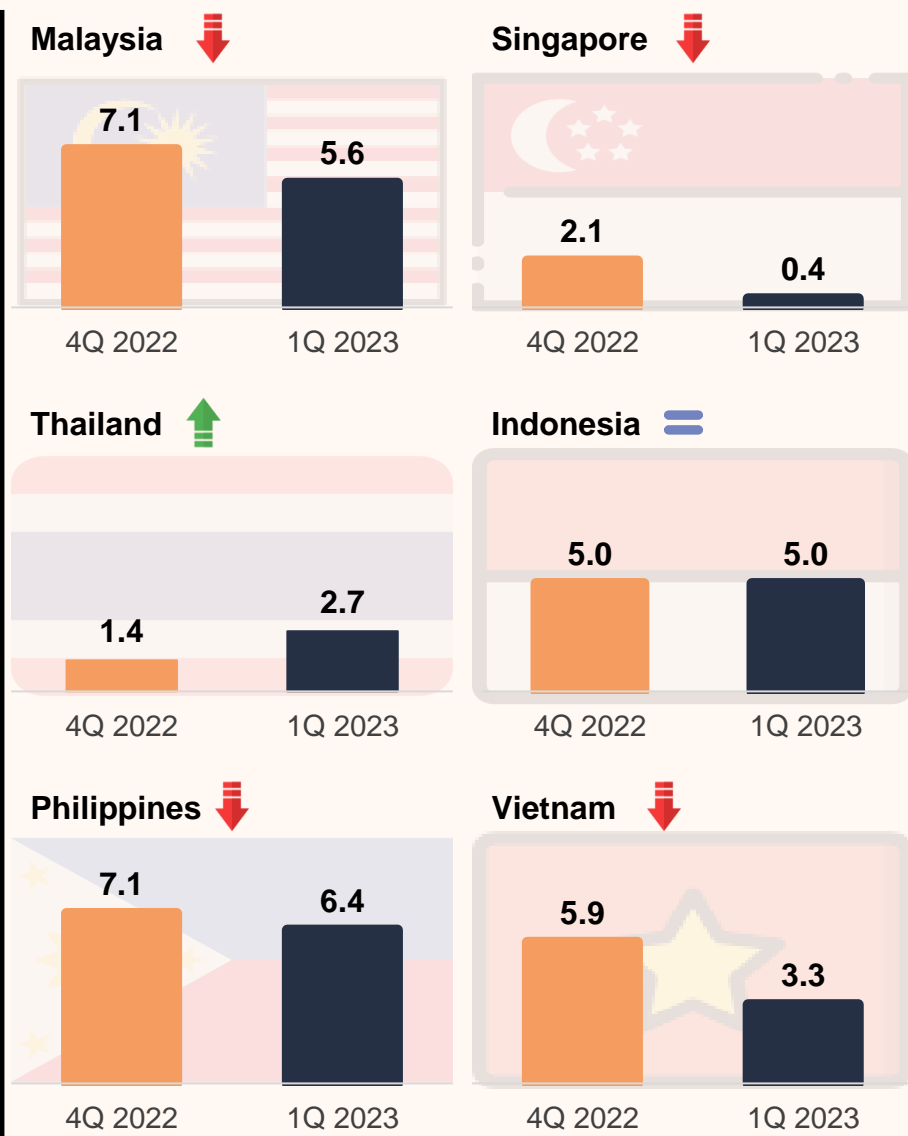
GDP growth heatmap for advanced and emerging economies

The key economic powerhouse



Regionally ...

%, YoY

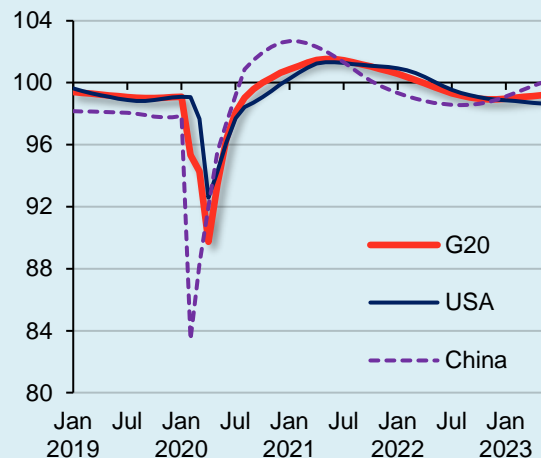


Source: Various officials (unadjusted data except for Euro Area)

Current and lead indicators suggest slowing economic growth

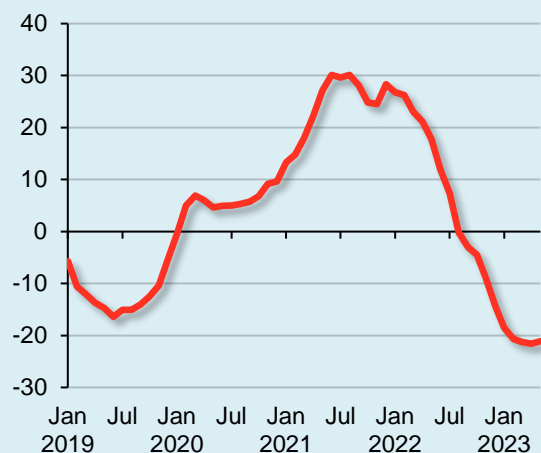
OECD Composite Leading Indicators (CLI)

100=Long-term average



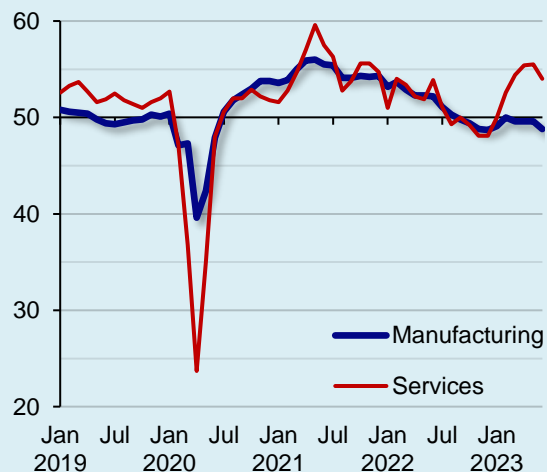
Global semiconductor sales

%, YoY



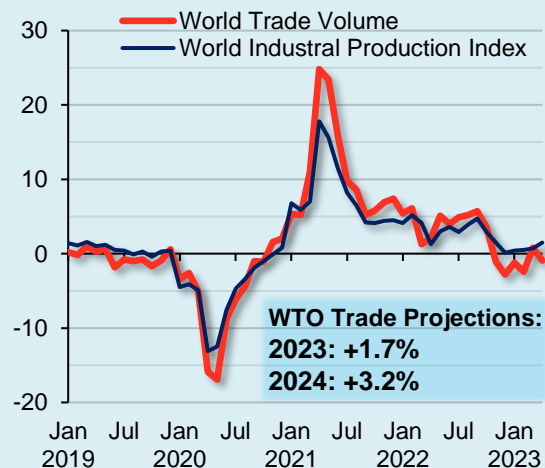
Global PMI for manufacturing & services

50=Threshold



World trade volume & industrial production

%, YoY



High-frequency data suggest **slowing economic growth**:

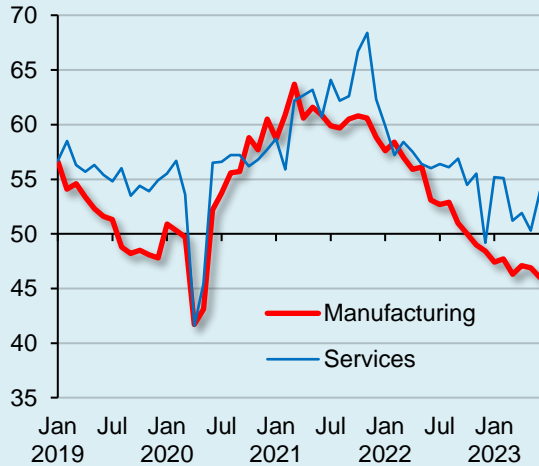
- OECD Composite Leading Indicators **stayed below its long-term average** with an insignificant upward turning for overall G20, indicating still weak global economic recovery.
- Global **Manufacturing PMI stood below the threshold expansion mark for four consecutive months** in Jun 2023. Services PMI remained robust amid softening reading in June.
- WSTS projected that **global semiconductor sales would contract by 10.3% in 2023** on increasing inflation and weakening demand in end markets.

Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; Semiconductor Industry Association (SIA); CPB Netherlands

US: Jobs data defy expectations for a sharp slowdown

Manufacturing and services PMI

50=Threshold



Retail trade & food services

%, YoY



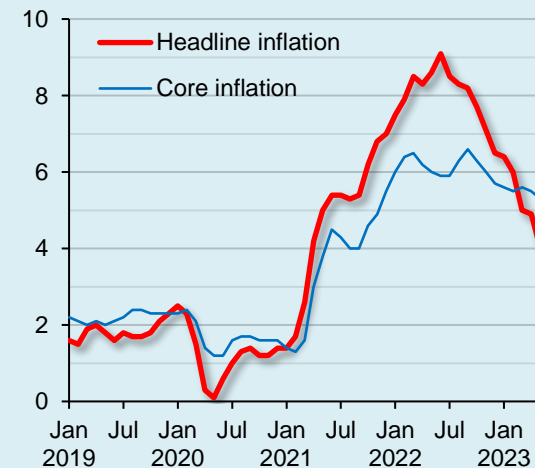
Unemployment rate and wage growth

%



Headline & core inflation

%, YoY



- Current lending conditions remain consistent with a slowing economy, not one that is entering a recession.
- Households continue spending for services such as entertainment and travel, thanks to a strong labour market.
- Headline inflation is gradually moderating as demand for goods slows and remaining supply chain issues are resolved.
- There remain lingering concerns about recession risk in the US economy.

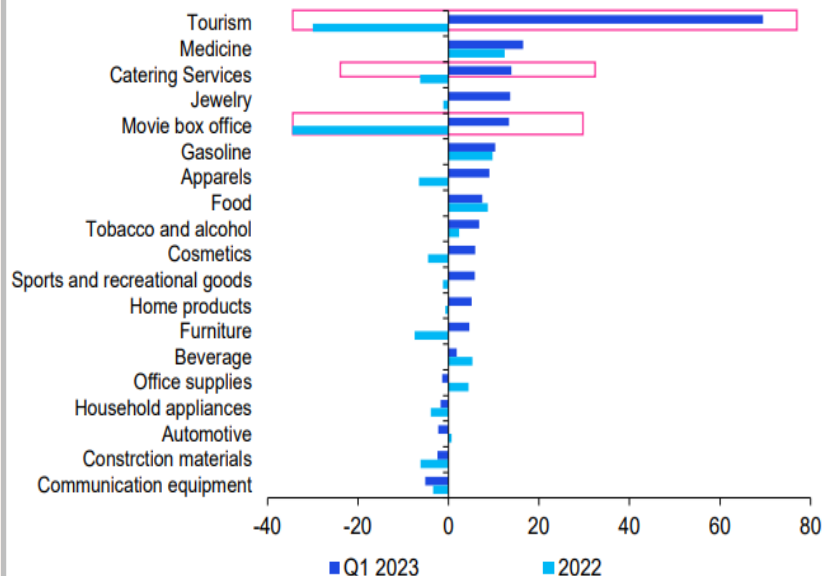
Source: Institute for Supply Management (ISM); US Census Bureau; US Bureau of Labor Statistics

China's economic recovery continues to stutter

1

Services consumption is recovering fast

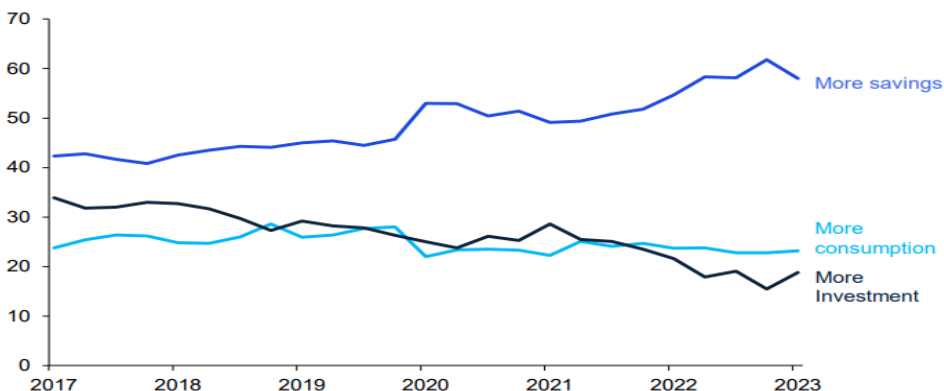
Growth of retail sales by category
YoY, %



2

Households' savings remain high

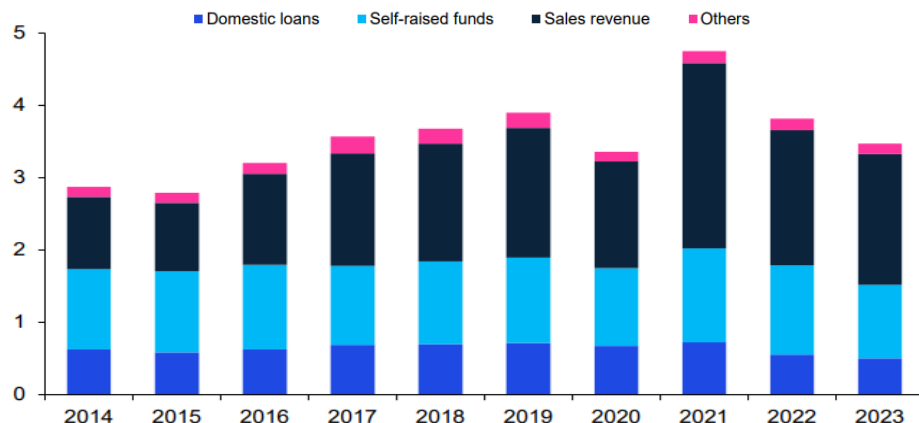
Survey on household's sentiment
%



3

Liquidity pressure for developers remained tight

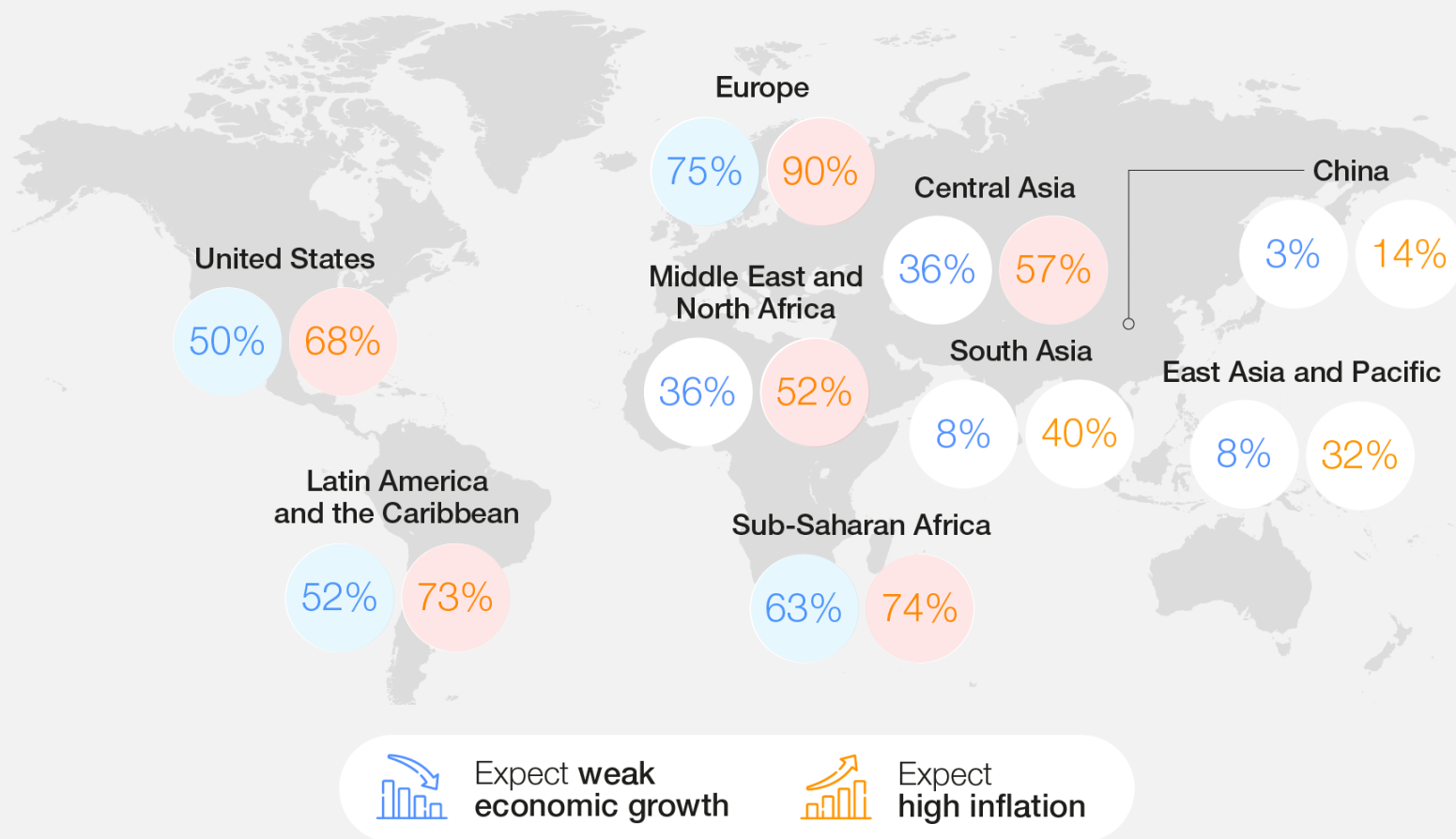
Funding sources of real estate developers in the first quarter of each year
RMB trillion



Source: KPMG Analysis

Weighing the risk of stagflation

Where do chief economists expect the risk of stagflation?



Source: Chief Economists Outlook, World Economic Forum, May 2023

Recent financial tremors add to headwinds



Financial sector tremors

67%

expect further **bank failures** or other serious financial disruptions in 2023

79%

expect central banks to face a **trade-off** between managing inflation and maintaining banking sector stability

Chief economists think that recent financial disruption is likely to:



82%

make bank lending more difficult to secure



73%

slow down investment and activity in the technology sector



36%

lead to changes to banking regulations both nationally and globally



31%

be an indication of systemic vulnerability

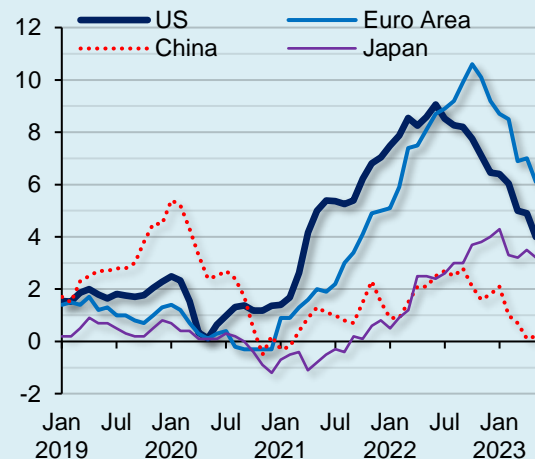
Source: Chief Economists Outlook, World Economic Forum, May 2023



Inflation moderates amid weak economic growth

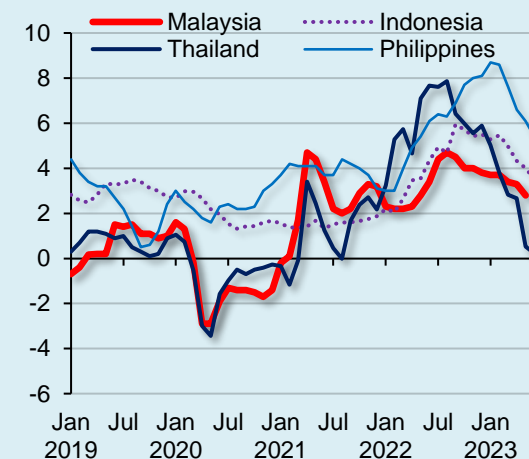
Inflation – Advanced economies

%, YoY



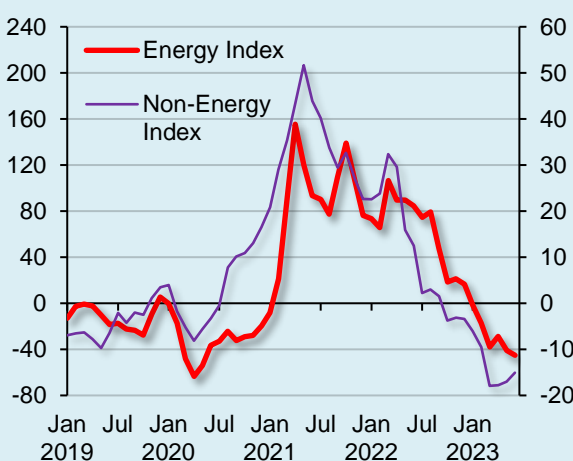
Inflation – Selected ASEAN economies

%, YoY



Energy index

%, YoY

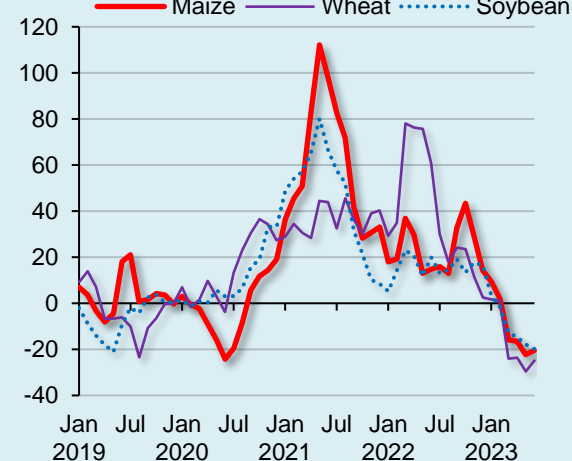


Non-energy index

%, YoY

Selected global food prices

%, YoY

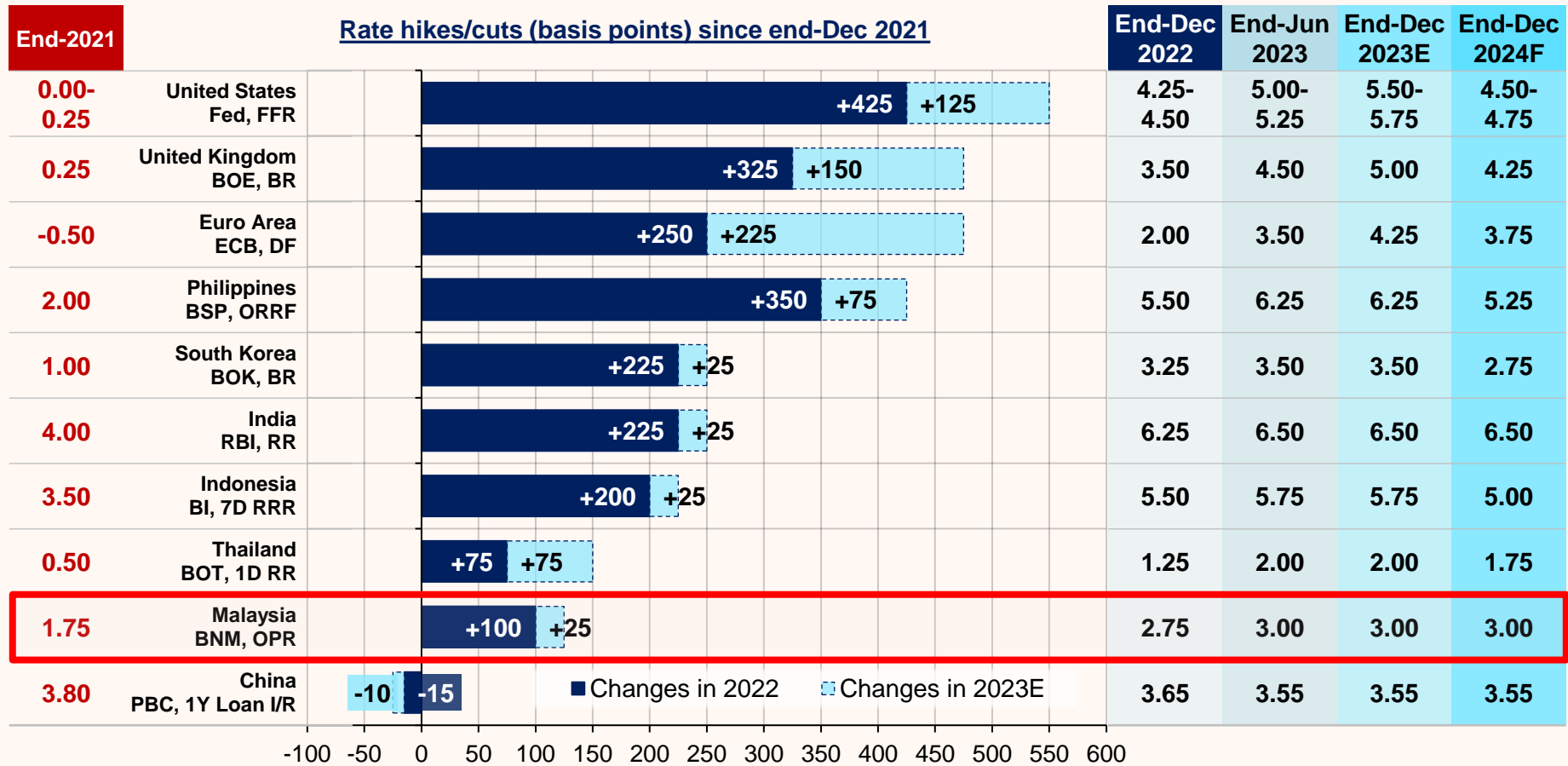


- **Headline inflation trends are down**, but labour markets pressure services prices, adding to core inflation.
- **Global commodity prices, tight labour markets that drive up services inflation, and ongoing globalisation reset**, which could offset some of the efficiency gains in the global supply chains, are among the key risks that could increase inflationary pressures in 2H 2023 and 2024.

Source: World Bank; Various officials for inflation data

Interest rates may need to stay high for a longer while

Policy rate (%)



Note: For rate in a range, upper-bound applies in chart.

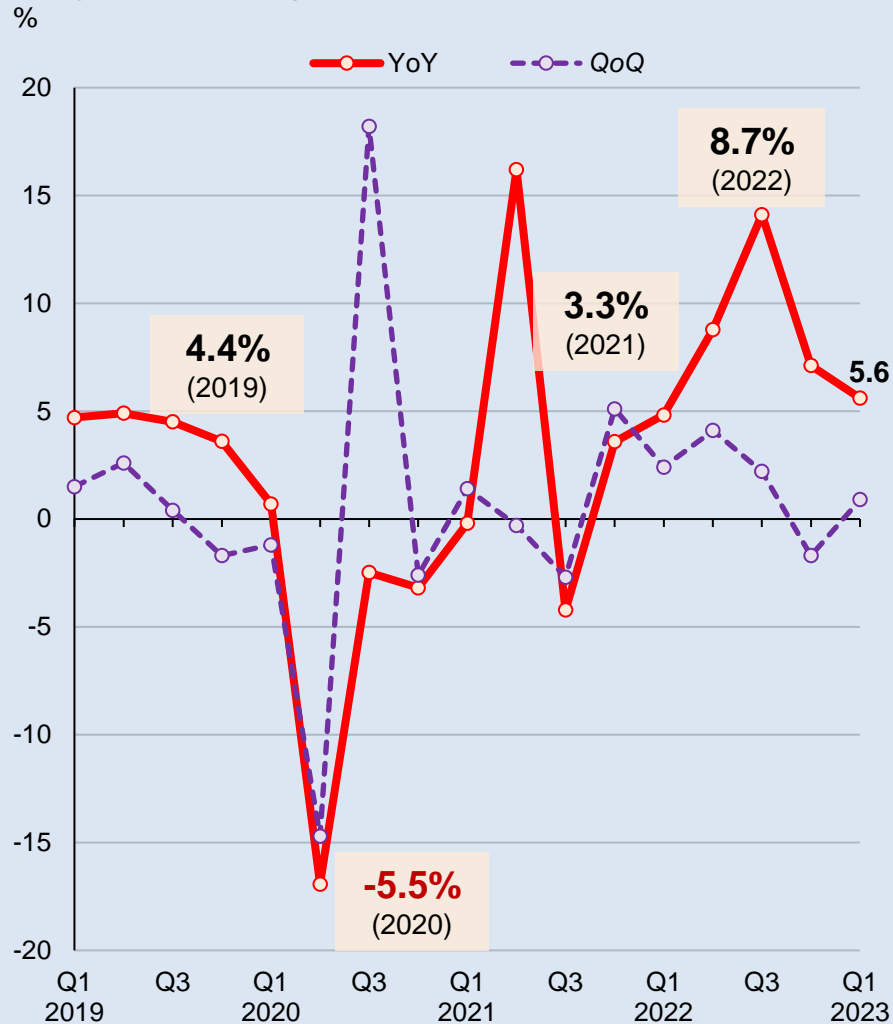
Source: Various officials

Malaysia: How is the Economy Doing?

- *The Malaysian economy is normalising to a gentle softening path in 2023*
- *Exports contracted; industrial output and manufacturing sales also falling*
- *Retail sales growth moderates*
- *Upside risks to the inflation outlook remain*
- *Interest rate normalisation could come to an end*

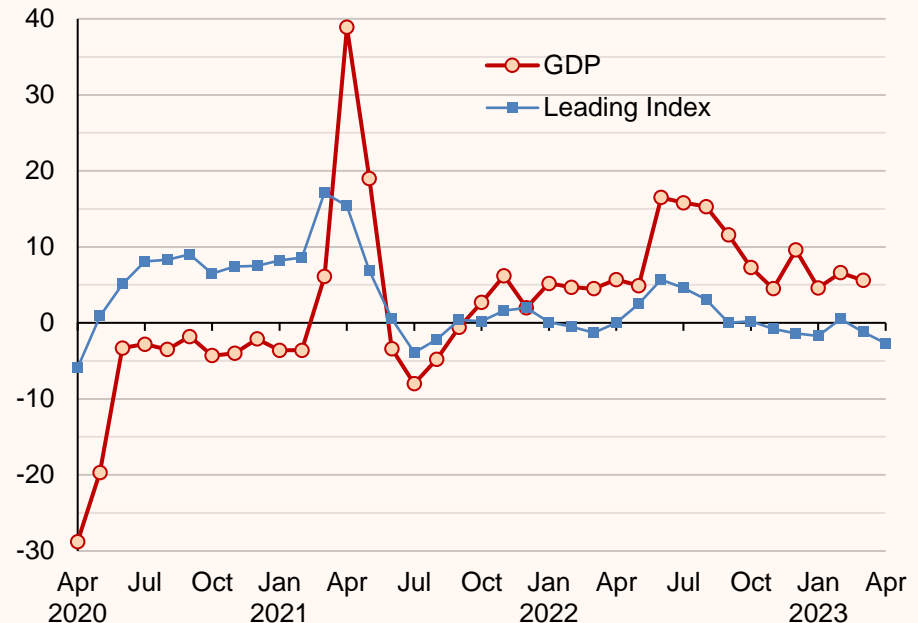
Growth downtrend continues

Malaysia's real GDP growth



- Real GDP growth will continue to slow in the quarters ahead (4.5% in 2023 vs. 8.7% in 2022).
- Exports to be a considerable drag on the economy.
- Continued normalisation of consumer spending (4.5% and 5.0% in 2023-2024 vs. an average growth of 7.1% per annum (pa) in 2016-2019).

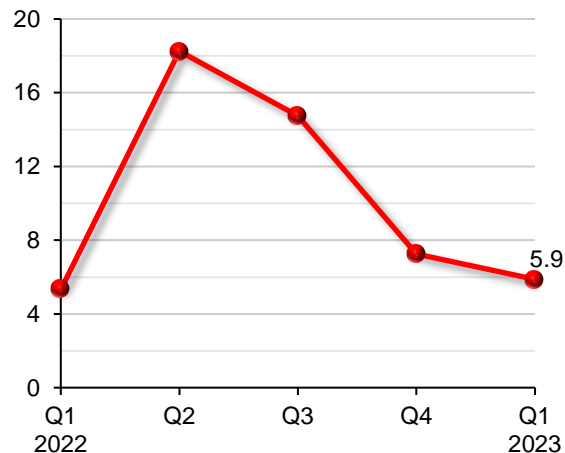
Monthly GDP and leading index growth
%, YoY



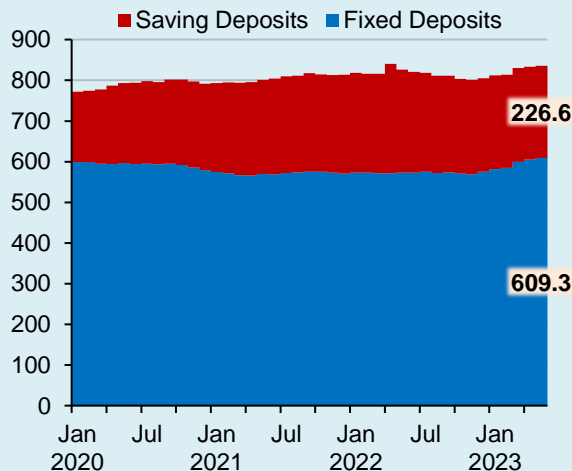
Source: Department of Statistics, Malaysia (DOSM)

Near-term outlook for consumer spending

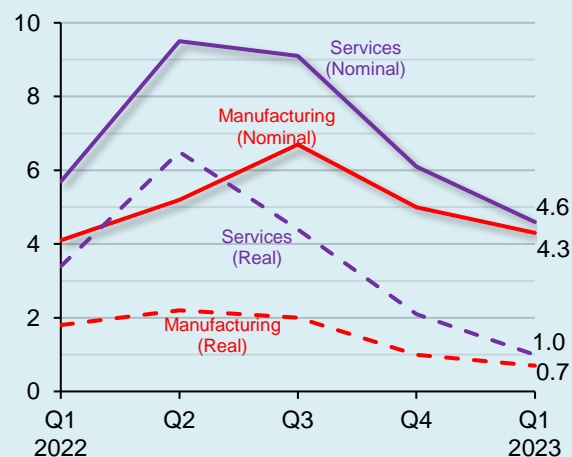
Private consumption growth
%, YoY



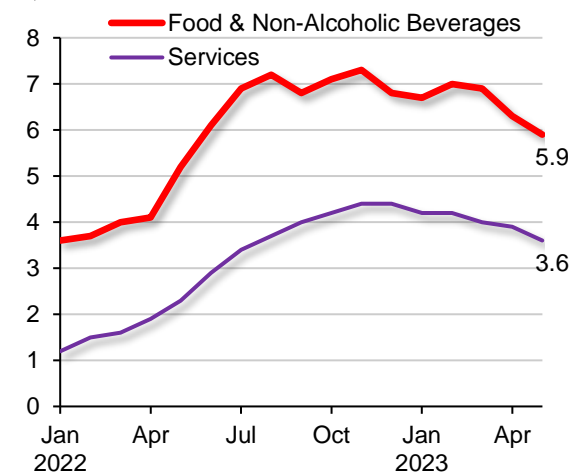
Fixed and saving deposits
RM billion



Nominal & real wages by sectors
%, YoY



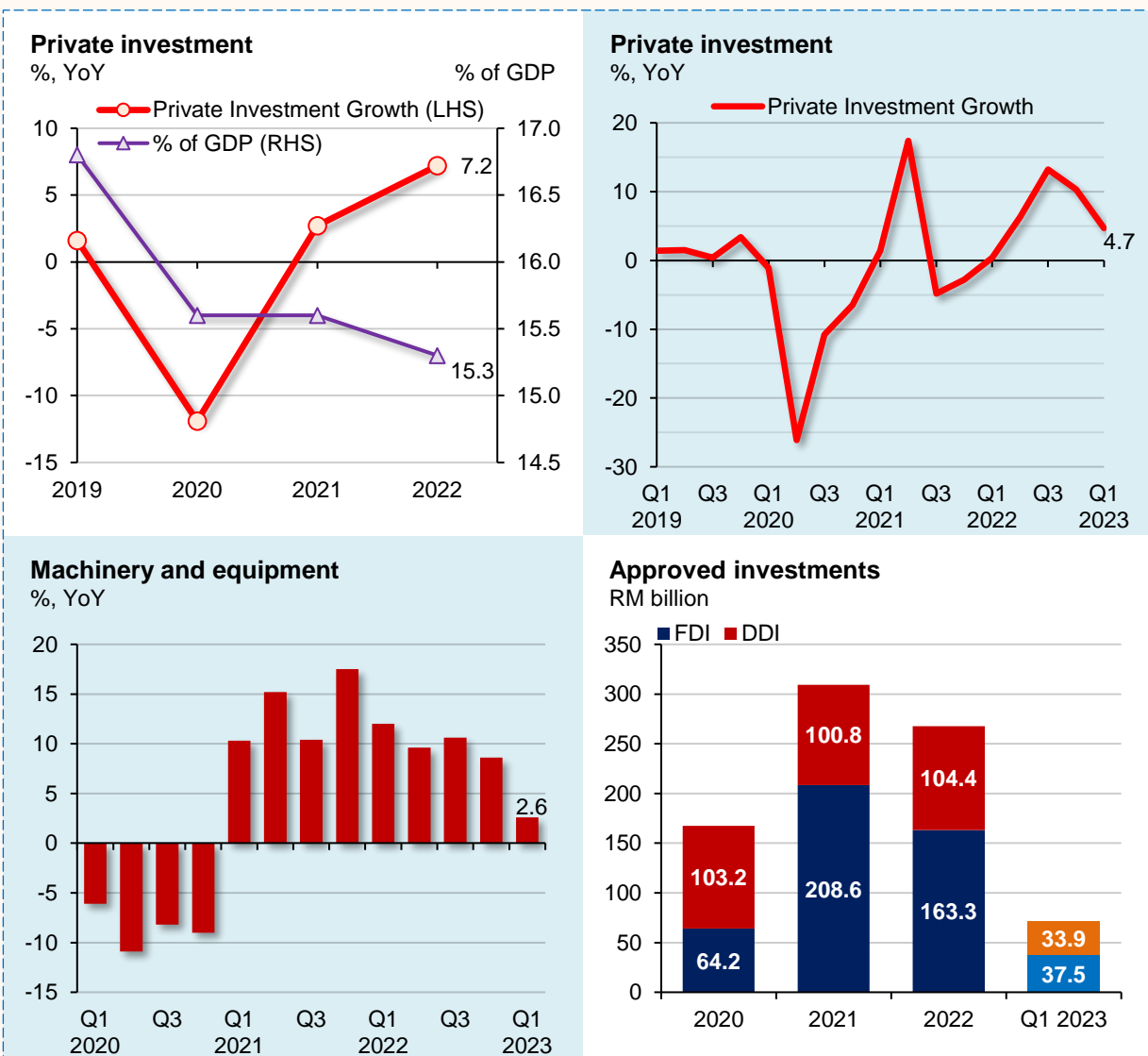
Food and services inflation
%, YoY



- 1 Cash stimulus has already been spent; or some were saved.
- 2 Spending booms as “revenge spending” on travel and consumer services post-pandemic has faded.
- 3 As consumer spending renormalises, they could conceivably spend less on durable consumer goods.
- 4 Higher interest rates (borrowing costs) would mean higher debt service payments for higher-debt borrowers. 53.4% of total household loan accounts have floating-rate loans.
- 5 Risks that could increase inflationary pressures in 2H 2023 and 2024.

Source: Bank Negara Malaysia, DOSM

Near-term outlook for private investment



Source: DOSM, MIDA

- Increased business costs and concerns about global and domestic economic prospects.

Catalysts for investment

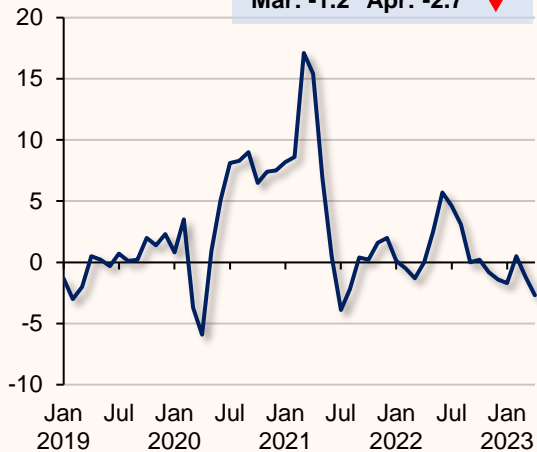
- High amount of investment approvals in 2022.
- On-going implementation of public infrastructure projects: ECRL, LRT3, My DIGITAL 5G, Pan Borneo Highway.
- New Industrial Master Plan in August 2023.

Tracking Malaysia's economic indicators

Leading indicators

% YoY

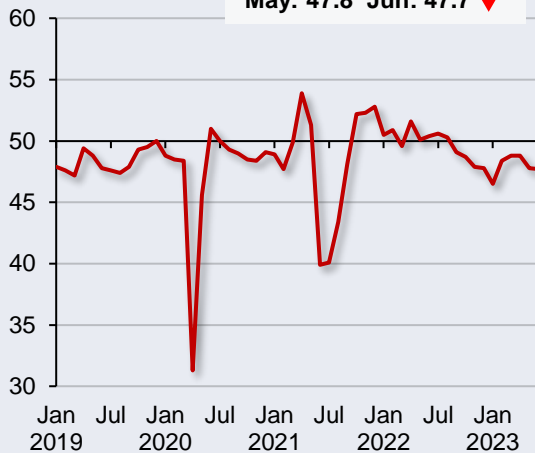
Mar: -1.2 Apr: -2.7 ▼



Purchasing Managers' Index (PMI)

50=Threshold

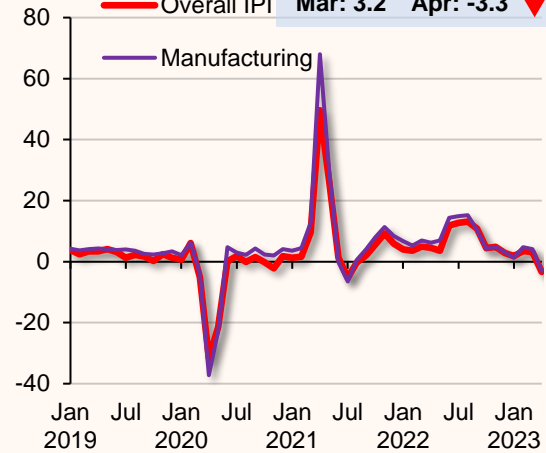
May: 47.8 Jun: 47.7 ▼



Industrial production index (IPI)

% YoY

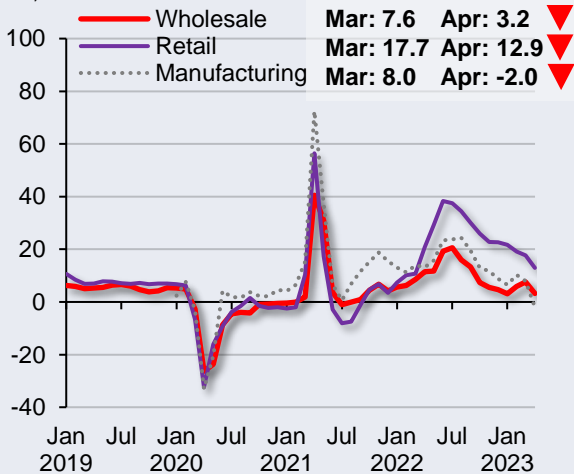
Mar: 3.2 Apr: -3.3 ▼



Wholesale, retail & manufacturing sales

% YoY

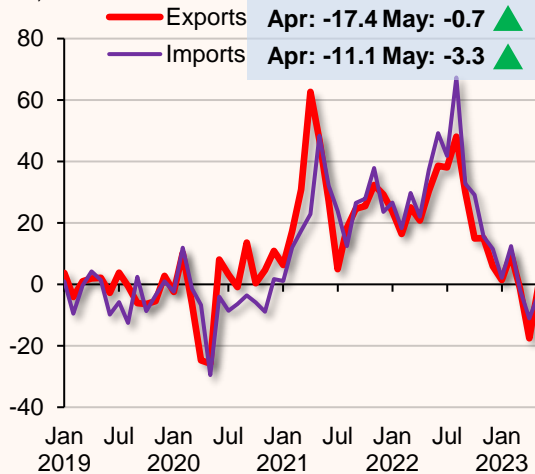
Mar: 7.6	Apr: 3.2	▼
Mar: 17.7	Apr: 12.9	▼
Mar: 8.0	Apr: -2.0	▼



External trade

% YoY

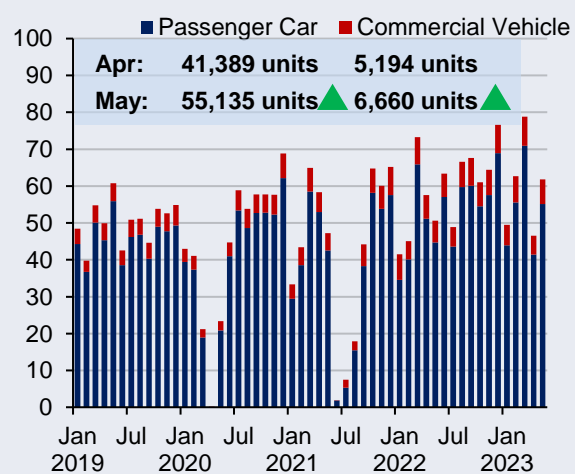
Apr: -17.4 May: -0.7 ▲



Sales of passenger & commercial vehicles

Thousand units

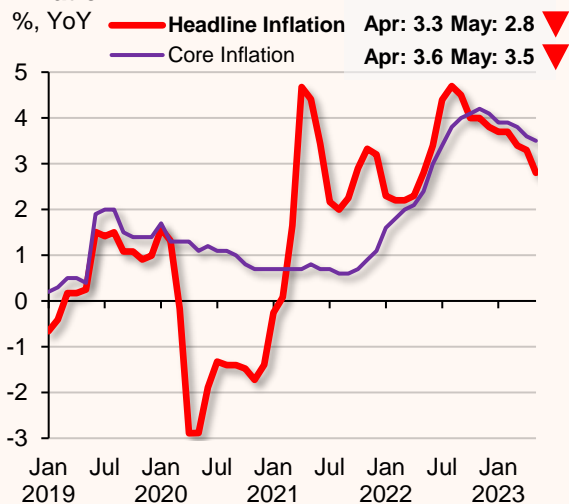
	■ Passenger Car	■ Commercial Vehicle
Apr:	41,389 units	5,194 units
May:	55,135 units▲	6,660 units▲



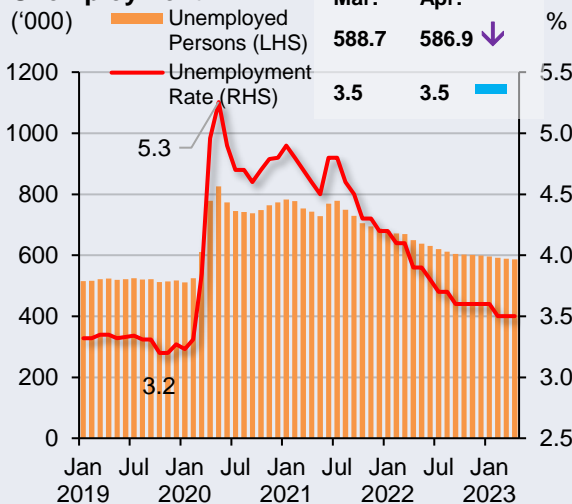
Source: S&P Global; DOSM; Malaysian Automotive Association (MAA)

Tracking Malaysia's economic indicators (cont.)

Inflation



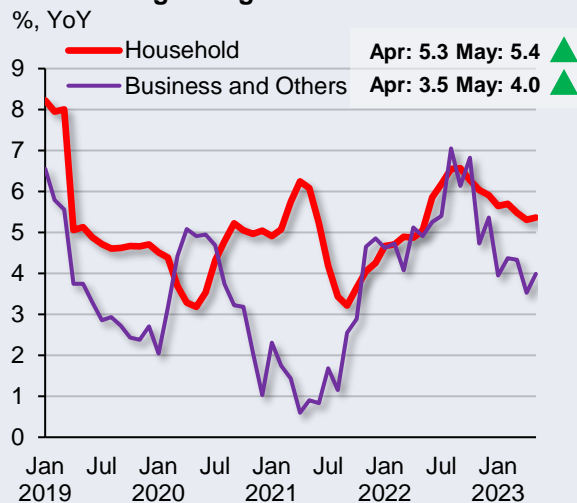
Unemployment



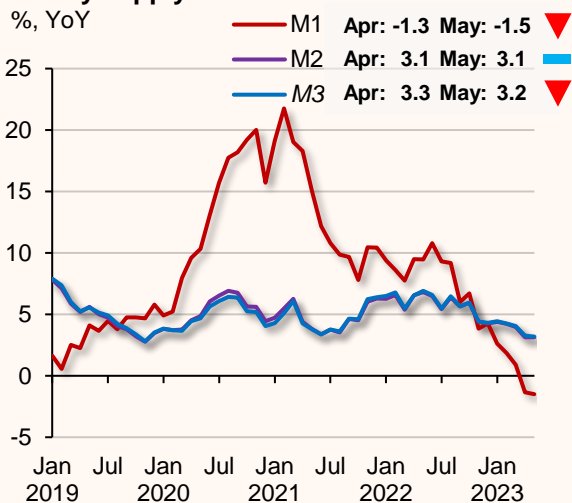
Manufacturing wage (per employee) growth



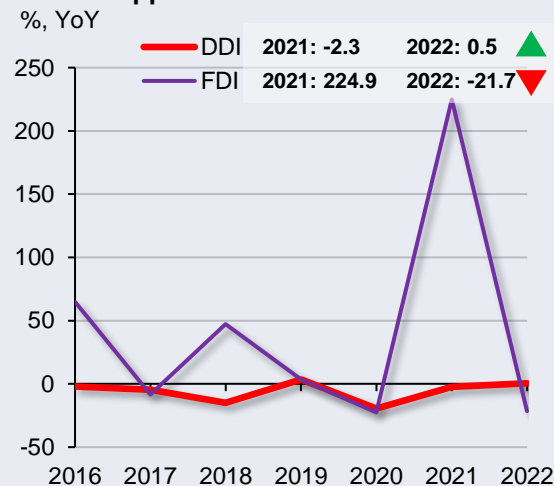
Outstanding loan growth



Money supply



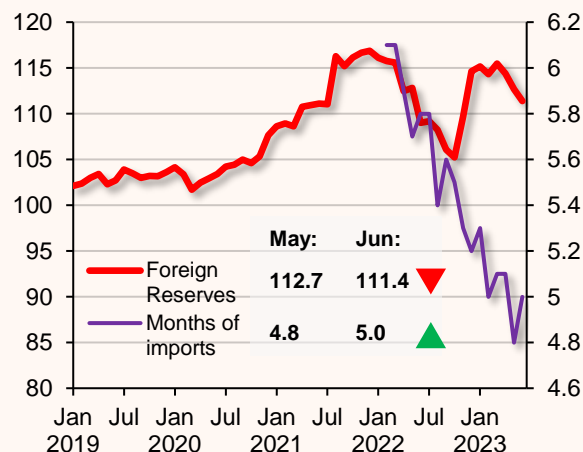
MIDA's approved investments



Source: DOSM; BNM; MIDA

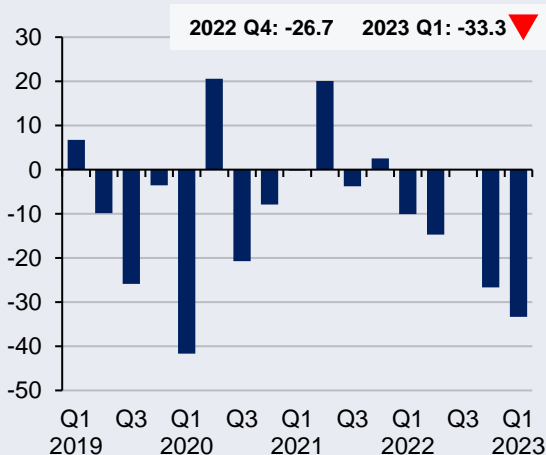
Tracking Malaysia's financial indicators

Foreign reserves
US\$ billion

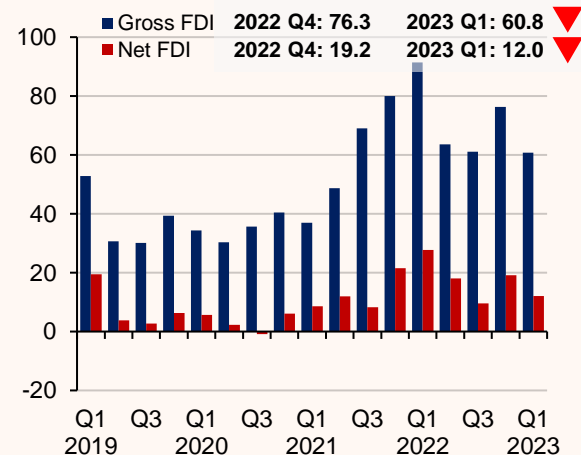


Months of imports of goods and services

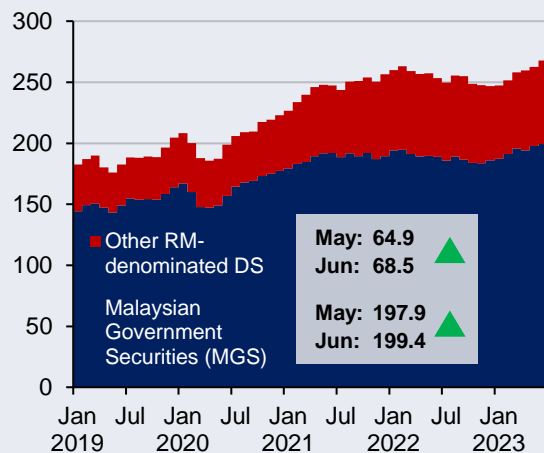
Net portfolio investment
RM billion



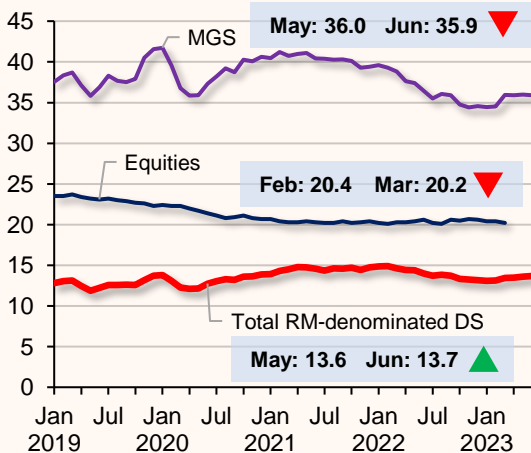
Foreign direct investment (FDI)
RM billion



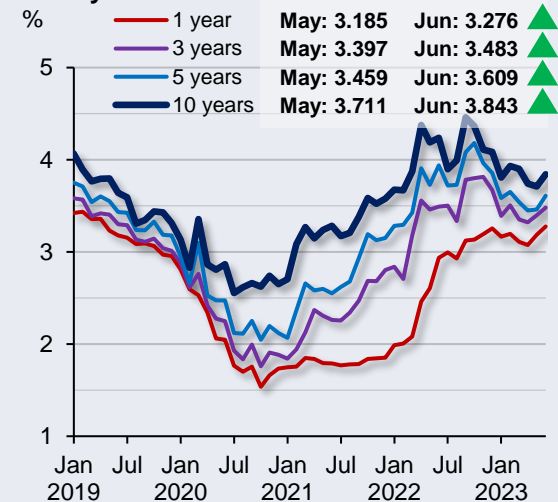
Foreign-owned debt securities (DS)
RM billion



Foreign-owned debts and equities
% share



MGS yield



Source: DOSM; BNM; MIDA

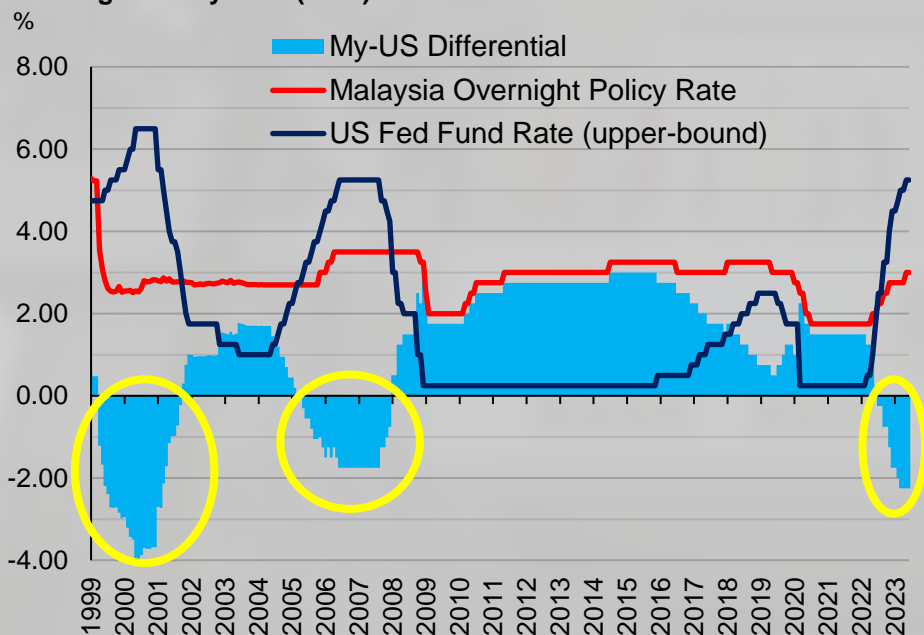


Bank Negara Malaysia Monetary Policy Stance

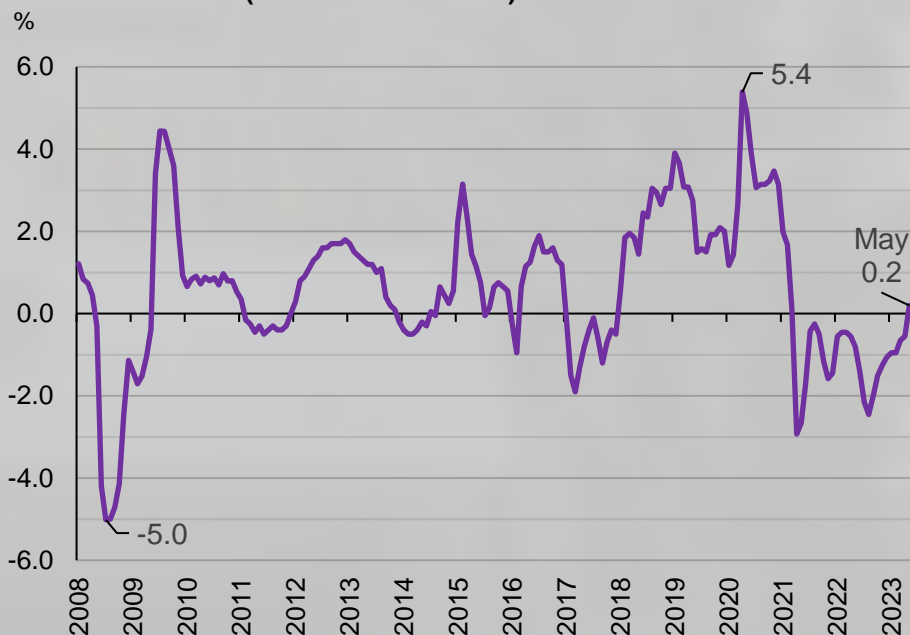
- Global headwinds remain
- Domestic economy will continue to grow, albeit slower
- Inflation will moderate but core inflation remains elevated
- Current stance is “accommodative and supportive of economic growth”
- Any changes to the OPR depend on how resilient the economy and consumer inflation behaves

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

Overnight Policy Rate (OPR) vs. Fed Fund Rate



Real Interest Rate (OPR minus inflation)

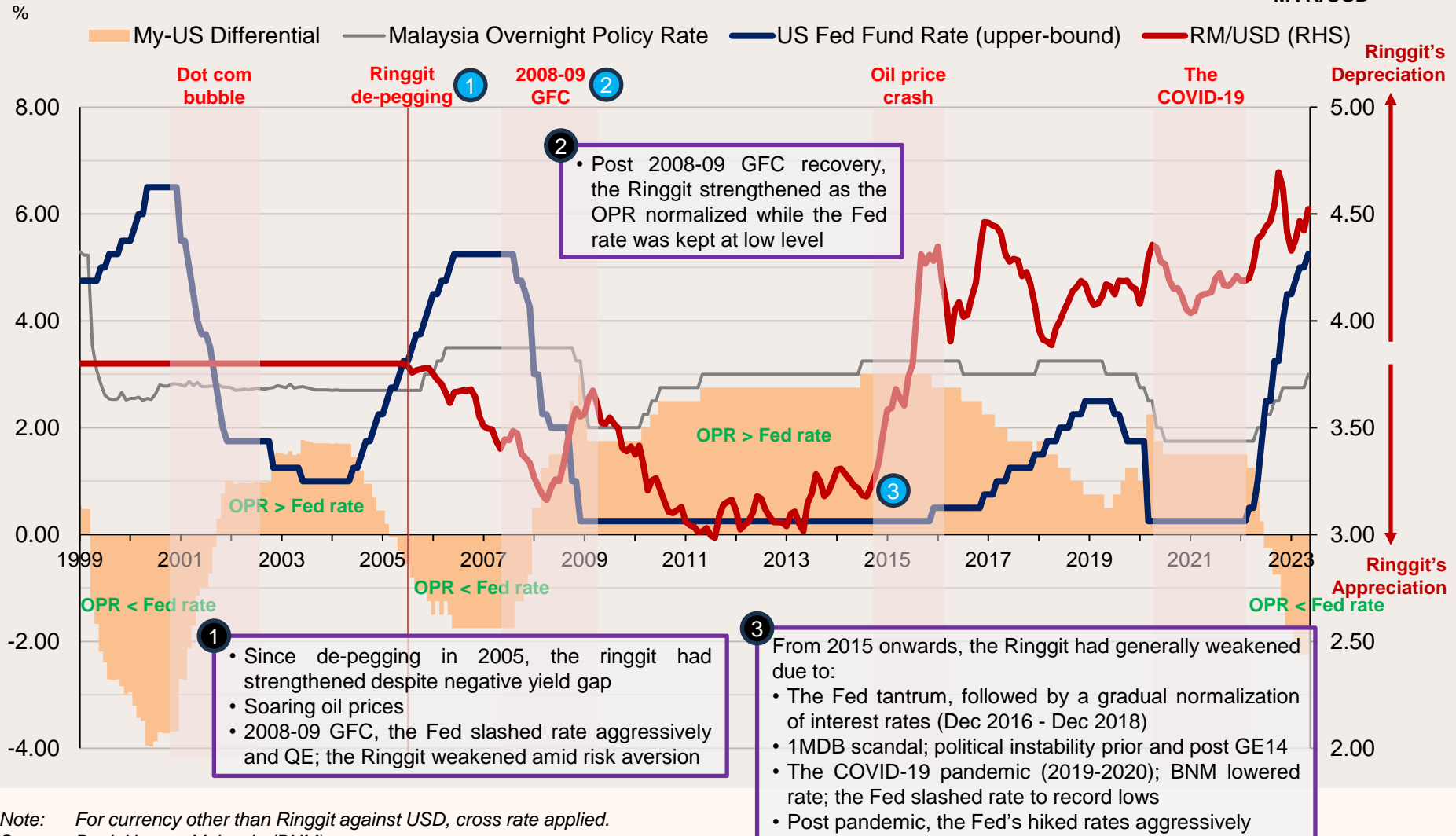


Source: BNM; Federal Reserve; DOSM

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

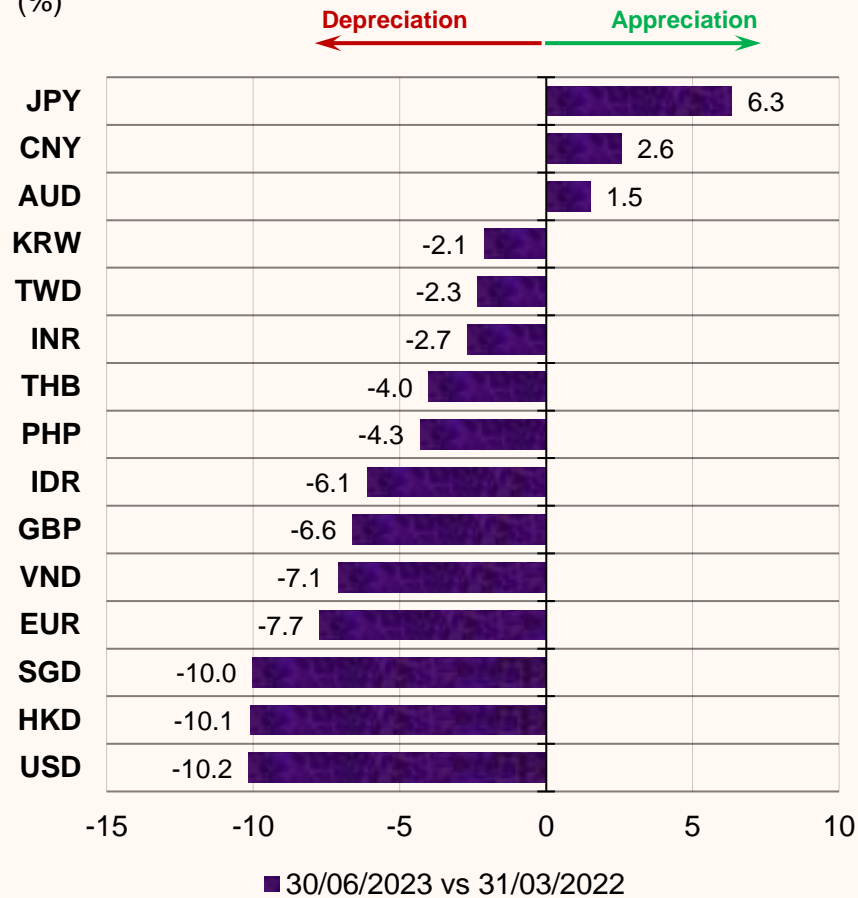
Since 2015, the Ringgit had depreciated by an average of 0.9% pa against the US dollar in 2005-2022 (appreciated in nine years: 2005, 2006, 2007, 2009, 2010, 2012, 2017, 2019, 2020)

Overnight Policy Rate (OPR) vs. Fed Fund Rate

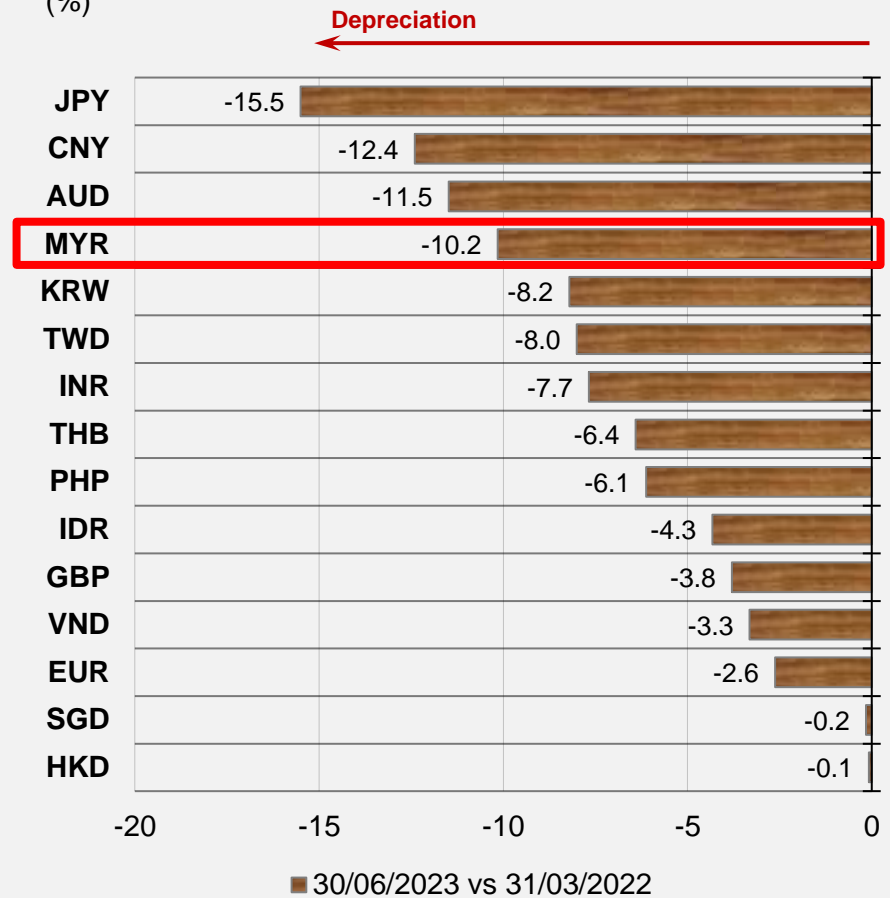


The ringgit's movement since the Fed's rate hike cycle starting in March 2022

The Ringgit against major and regional currencies (%)



Major and regional currencies against the USD (%)



Note: For currency other than Ringgit against USD, cross rate applied.

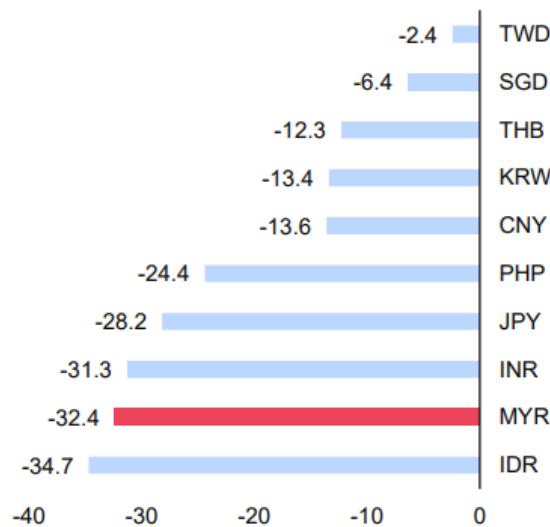
Source: Bank Negara Malaysia (BNM)

Returns on MYR assets over 10-year period

The Ringgit Conundrum

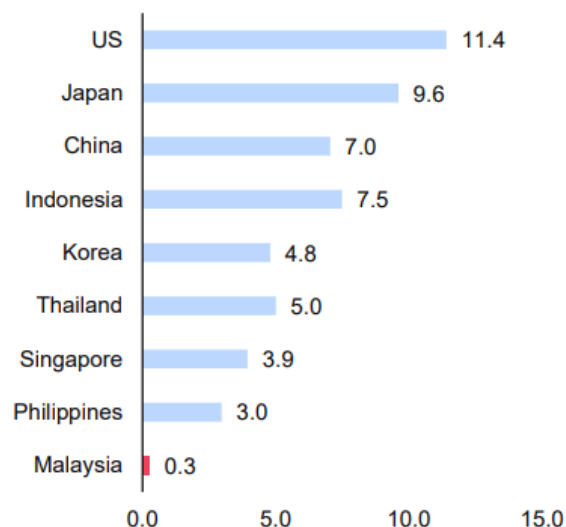
- Will the Ringgit reverse its depreciation trend against the US dollar?
- Relative interest rate and inflation; exports performance; balance of payments
- Budget deficit and debt sustainability
- Political stability; market sentiment
- Structural reforms key to supporting the economy and ringgit

FX Total Spot Return (%)



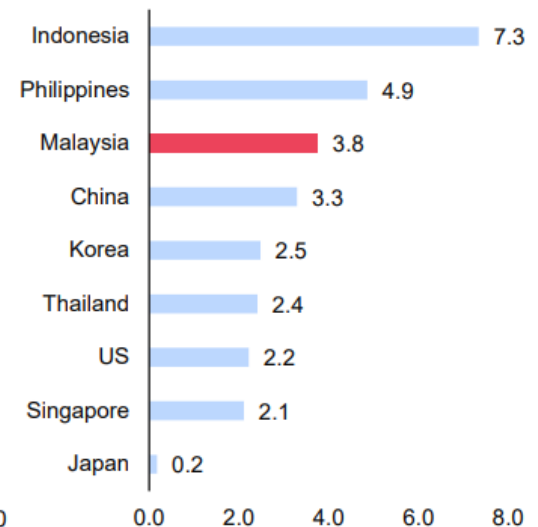
Source: Bloomberg

Annualised Local Bourse Returns (%)



Source: Bloomberg

10Y Average Yield (%)



Source: Bloomberg

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 background of the slide features a repeating pattern of isometric cubes. The cubes are rendered with thin, light red lines on a solid light orange background. They are arranged in a staggered grid, creating a three-dimensional effect. The pattern is consistent across the top and bottom of the slide, framing the central text.

2H 2023 & 2024: What's Ahead?

Key developments to watch in 2H 2023 and 2024



The US and China Economy

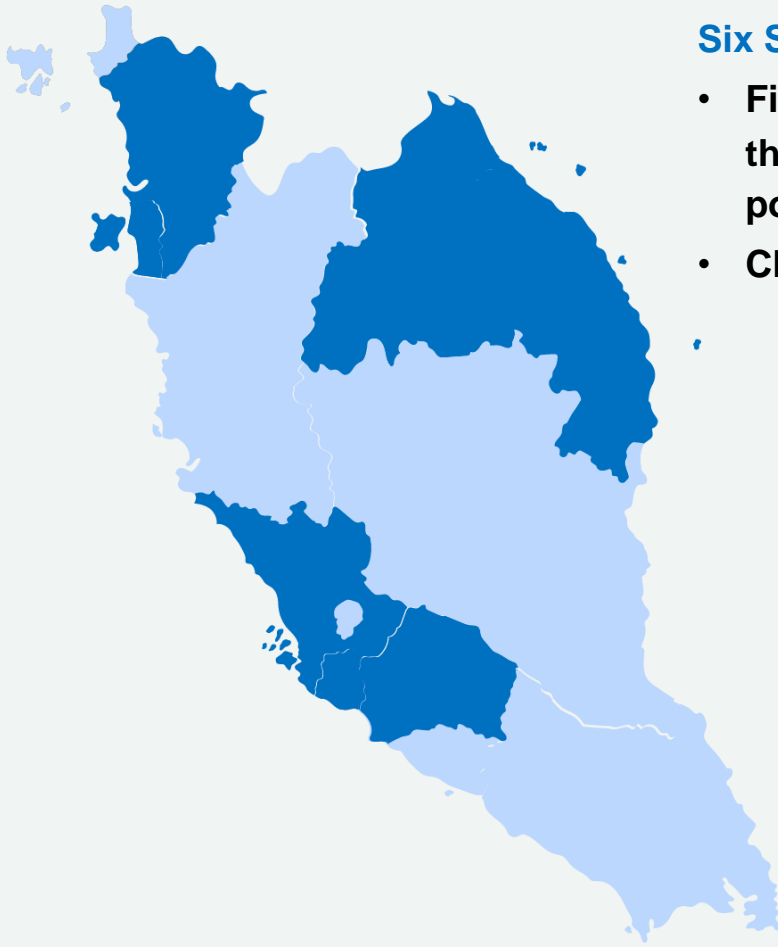
- Lag impact of higher US interest rate on the US economy
- Will China defy the slowdown gravity?
- Will the US-China rivalry escalate in the run-up to the 2024 United States Presidential election



The Fed Rate Tightening Cycle Comes to An End, BUT.....

- Lingering uncertainties about the Fed's narrative of a pivot
- Volatility in the financial market and foreign exchange markets

Key developments to watch in 2H 2023 and 2024 (cont.)



Six States Election Outcomes

- First major test for former political rivals that forged their alliance to ensure continued political stability post the 15th General Election
- Closely watch on Selangor and Negeri Sembilan

Post-Six State Elections

- Election outcomes could influence the national political landscape
- Subsidy rationalisation kicks in (fuel, electricity tariff etc.) – 4Q 2023- 1Q 2024
- MADANI Economy Narratives (August 2023)
- Roll out of the New Industrial Master Plan (August 2023)
- The Mid-term Review of the 12th Malaysia Plan (September 2023)
- Tabling of 2024 National Budget (13 October 2023)

Key developments to watch in 2H 2023 and 2024 (cont.)



Economic Growth Trajectory

- High-base effects in 2H 2022 challenge 2H 2023
- Exports will remain in a negative trajectory
- Consumer spending continues to normalise



Monetary Policy in Focus

- Slowing demand could restrain the normalisation of interest rate
- But, inflation risk induced by subsidy rationalisation presents a policy dilemma
- BNM will not pivot to rate cuts UNLESS demand recession



Upward Trajectory in Inflation

- Changes in domestic subsidy policy
- Impact of the ringgit's depreciation (imported costs and final consumption goods)

The Great Reset for Malaysia – Address structural issues



Low productivity and technology adoption

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



Talent and skilled manpower shortages; high youth unemployment

- As at 1Q 2023:
 - Skilled workers (27.9%)
 - Semi-skilled (59.3%)
 - Low-skilled (12.8%)
- Youth (aged 15-24) unemployment rate at 11.1% (316k persons) in April 2023, 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 employees' compensation (CE) to GDP in 2021:
 - Malaysia (34.8%)
 - South Korea (47.9%)
 - Australia (47.7%)
 - Singapore (39.4%)
 - 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. an average of 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.)



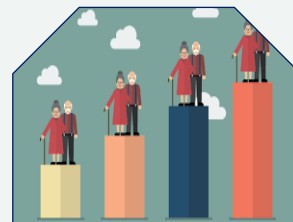
Limited fiscal space; high debt and liabilities

- 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

Implementation of Timely and Credible Structural Reforms

01



Fiscal Sustainability Governance

- Targeted subsidy rationalisation; Reintroduction of GST
- Fiscal Responsibility Act and Government Procurement Act

02



Enhance Better Investment Climate

- Strengthening public delivery services; facilitation of investment; quality investment
- Streamlining regulatory and compliance costs

03



Digitalisation and Technology Adoption

- MyDIGITAL 5G; Industry4WRD

04



Climate Resilience and ESG

- Appointing a lead ministry to oversee the national ESG agenda
- Facilitating SMEs toward ESG adoption; carbon pricing

05



Future-ready Workforce

- Implementing a national database to ensure targeted support
- TVET; reskilling and upskilling

06



Social Protection

- Expanding social security to all working-age individuals.
- Implementing a National Healthcare Insurance (NHI) is a long-term solution





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**谢 谢
THANK YOU**

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