

Malaysia Macro Update

BNM's Economic & Monetary Review (EMR) 2023

Maintain 4%-5% real GDP growth forecast for 2024

BNM maintains official 2024 real GDP growth forecast range of +4.0% to +5.0% (2023: +3.7%).

Domestic demand is projected to pick up (2024F: +5.4%; 2024F previous: +5.3%; 2023: +4.8%) on faster private consumption (2024F: +5.7%; 2024F previous: +5.7%; 2023: +4.7%) and gross fixed capital formation (2024F: +6.2%; 2024F previous: +6.1%; 2023: +5.5%) that reflects firmer outlook for private investment (2024F: +6.1%; 2024F previous: +5.4%; 2023: +4.6%) as public investment moderates (2024F: +6.2%; 2024F previous: +8.3%; 2023: +8.6%) alongside public consumption (2024F: +3.2%; 2024F previous: +2.6%; 2023: +3.9%). Net external demand is expected to rebound (2024F: +2.1%; 2024F previous: +5.5%; 2023: -11.3%) on recovery in both exports (2024F: +4.0%; 2024F previous: +4.1%; 2023: -7.9%) and imports (2024F: +4.1%; 2024F previous: +3.9%; 2023: -7.6%) of goods and services.

By sectors, the outlook is higher growth for services (2024F: +5.5%; 2024F previous: +5.6%; 2023: +5.3%), manufacturing (2024F: +3.5%; 2024F previous: +4.2%; 2023: +0.7%), mining (2024F: +3.5%; 2024F previous: +2.7%; 2023: +1.0%) and construction (2024F: +6.7%; 2024F previous: +6.8%; 2023: +6.1%) as agriculture is expected to shrink (2024F: -0.5%; 2024F previous: +1.2%; 2023: +0.7%).

Growth outlook is subject to downside risks such as weaker than expected external demand and commodity output as well as escalation in geopolitical conflict. Upsides would be stronger than expected tech upcycle and tourism activity as well as faster implementation of new and existing investment projects.

Inflation forecast range tweaked

2024 inflation rate forecast is tweaked to +2.0% to +3.5% from +2.1% to +3.6% previously (2023: +2.5%) which keeps the 1.5 percentage points forecast range amid the upside risk from subsidy rationalization - especially fuel subsidy where details on timing and quantum remains a "black box". There will also be inflation impact from Budget 2024's consumption-related tax measures e.g. broadening of services tax base and rate (to 6%-8% range from 6%); introduction of low value and high value (luxury) goods. Other inflation risks include exchange rate volatility (i.e. -5% fall of Ringgit vs USD adds 0.2ppt to core inflation rate over 12 months period; 26% of domestic consumption are imported) as well as higher than expected global commodity prices due to geopolitical and weather/climate risks - although global commodity prices can be softer due to weaker than expected global economic growth. BNM expects core inflation rate of between +2.0% and +3.0% this year (2023: +3.0%)

BNM sees gradually firmer Ringgit

BNM reiterates that Ringgit is undervalued in relation to fundamentals (e.g. sustained current account surplus - 2024F: +1.8% to +2.8% of GDP; 2023: +1.2% of GDP) and growth prospects (as per above), and its performance has been affected and influenced by external and cyclical factors such as interest rate differentials, global growth fluctuations and investors sentiments. BNM foresees gradual improvement in Ringgit this year on factors like expected US Fed's interest rate cuts plus Ringgit-supportive measures like repatriation and conversion of overseas income by Government-linked companies (GLCs) and Government-linked investment companies (GLICs) as well as structural reforms (re: *BNM Monetary Policy, 7 Mar 2024*). Caveat to the prospect of firmer Ringgit are downside risks from shifting expectations on US Fed's monetary policy, weaker than expected China's economy and commodity prices.

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Monetary policy to focus on dual mandate of sustainable growth and price stability

BNM stated that having normalised its monetary policy i.e. the Overnight Policy Rate (OPR) to pre-pandemic level i.e. 3.00%, the growth-inflation development in 2023 and outlook in 2024 outlined in the EMR presents the appropriate landscape for the Government to implement key policies announced earlier that include economic restructuring and reforms, including fiscal measures (e.g. broaden and diversify tax revenue base; subsidy rationalisation) especially given the currently low and stable monthly inflation rates of 1.5% YoY since Nov 2023 up to Jan 2024.

We interpret the above to imply BNM to likely maintain status quo on its monetary policy amid firmer growth and upside risk to inflation as well as to support Ringgit stabilisation, hence our expectation of BNM keeping OPR at 3.00% throughout this year.

Figure 1: Malaysia - Real GDP (% Chg / % YoY)

	2022	1Q 2023	ACTUAL		4Q 2023	2023	MAYBANK IBG		2024F Revised	2024F Previous
			2Q 2023	3Q 2023			2024F	2025F		
Real GDP	8.7	5.6	2.9	3.3	3.0	3.7	4.4	5.0	4.0 - 5.0	4.0-5.0
Services	10.9	7.3	4.7	5.0	4.2	5.3	5.7	6.0	5.5	5.6
Manufacturing	8.1	3.2	0.1	(0.1)	(0.3)	0.7	3.0	4.3	3.5	4.2
Agriculture	0.1	1.0	(1.0)	0.9	1.9	0.7	1.7	1.7	(0.5)	1.2
Mining	2.6	2.4	(2.3)	(0.1)	3.8	1.0	0.8	1.0	3.5	2.7
Construction	5.0	7.4	6.2	7.2	3.6	6.1	6.5	6.5	6.7	6.8
Domestic Demand	9.2	4.6	4.5	4.8	5.2	4.8	4.9	5.5	5.4	5.3
Private Consumption	11.2	5.9	4.3	4.6	4.2	4.7	5.1	5.5	5.7	5.7
Public Consumption	4.5	(2.2)	3.8	5.8	7.3	3.9	4.1	4.7	3.2	2.6
Gross Fixed Capital Formation	6.8	4.9	5.5	5.1	6.4	5.5	5.1	6.0	6.2	6.1
Private Investment	7.2	4.7	5.1	4.5	4.0	4.6	5.3	5.8	6.1	5.4
Public Investment	5.3	5.7	7.9	7.5	11.3	8.6	4.3	6.6	6.2	8.3
Net External Demand	(1.0)	54.4	(3.7)	(22.7)	(35.6)	(11.3)	(4.8)	(7.1)	2.1	5.5
Exports of Goods & Services	14.5	(3.3)	(9.4)	(12.0)	(6.3)	(7.9)	3.2	3.4	4.0	4.1
Imports of Goods & Services	15.9	(6.5)	(9.7)	(11.1)	(2.9)	(7.6)	3.8	4.1	4.1	3.9

Sources: Dept. of Statistics, MoF (Oct 2023), BNM (Mar 2024), Maybank IBG Research

Figure 2: Malaysia - Other Key Economic Indicators

	2022	ACTUAL		MAYBANK IBG		OFFICIAL	
		2023	2024YTD	2024E	2025E	2024F Revised	2024F Previous
Gross Exports (% chg)	25.0	(8.0)	3.9 (2M)	4.7	5.6	5.0	5.1
Gross Imports (% chg)	31.3	(6.4)	13.6 (2M)	5.6	6.5	5.4	4.9
Trade Balance (MYRb)	255.5	214.1	21.0	230	228	220.3	237.3
Current Account Balance (MYRb)	55.1	22.8	-	40	40	41.5	62.2
Current Account Balance (% of GDP)	2.6	1.2	-	2.1	1.9	1.8-2.8	3.2
Fiscal Balance (% of GDP)	(5.6)	(5.0)	-	(4.3)	(3.3)	(5.0)	(4.3)
Inflation Rate (CPI, %)	3.3	2.5	1.5 (1M)	3.0	3.0	2.0-3.5	2.1-3.6
Overnight Policy Rate (% p.a., end-period)	2.75	3.00	3.00	3.00	3.00	-	-
Exchange Rate (MYR/USD, end-period)	4.40	4.59	4.74	4.40	4.25	-	-
Exchange Rate (MYR/USD, average)	4.40	4.57	4.72	4.55	4.33	-	-
Unemployment Rate (%)	3.8	3.4	3.3 (1M)	3.4	3.3	3.3	3.4
Crude Oil (USD/bbl, Brent average)	99.0	82.5	80.3 (2M)	80	75	80-90	85
Crude Palm Oil (MYR/tonne, average)	5,115	3,830	3,877 (2M)	3,700	3,600	4,200-4,400	4,000-4,500

Sources: Bloomberg, CEIC, Dept. of Statistics, MoF (Oct 2023), BNM (Mar 2024), Maybank IBG

Figure 3: Real GDP Growth - By Demand, 2022-2023 (% chg)

	2023	2024F	Details / Remarks
Domestic Demand	4.8	5.4	<ul style="list-style-type: none"> Firmer private expenditure growth (2024F: 5.8%; 2023: 4.7%) and sustained public expenditure growth momentum (2024F: 4.0%; 2023: 5.1%)
Private Consumption	4.7	5.7	<ul style="list-style-type: none"> Stable labour market conditions (unemployment rate - 2024F: 3.3%; 2023: 3.4%; employees compensation growth - 2024F: 5.5%-6.5%; 2023E: 5.3%-5.7%). Government measures, including higher cash handout to lower income groups (Sumbangan Tunai Rahmah - 2024: MYR10b; 2023: MYR8b) and incentive payment for civil servants and Government pensioners (2024: MYR3.9b; 2023: MYR1.3b) are also expected to support household spending.
Public Consumption	3.9	3.2	<ul style="list-style-type: none"> Emoluments spending amid annual salary increment for civil servants and new hirings in the public sector. Supplies and services expenditure, however, is expected to grow at a more moderate pace, in line with the Government's commitment to improve efficiency of spending.
Gross Fixed Capital Formation	5.5	6.2	<ul style="list-style-type: none"> Higher growth is driven by improvement in structures and machinery and equipment (M&E) investments to meet increasing demand. Catalytic projects and focus areas under the major national master plans (i.e. New Industrial Master Plan 2030 (NIMP 2030) and the National Energy Transition Roadmap (NETR) are expected to lend some support to investment activity. These include infrastructure projects, as well as investment in industries such as electrical and electronics (E&E), chemical, pharmaceutical, advanced materials, renewable energy and electric vehicles. Furthermore, the realization of investments promoted under these master plans will span across several years, thus providing continued positive spillovers to the economy going forward.
Private Investment	4.6	6.1	<ul style="list-style-type: none"> Realisation of new and ongoing investment projects amid the better global and domestic outlook as well as continued robust approved investment amounting to MYR330 b in 2023 (2022: MYR268b) which is concentrated mainly in the E&E products and information and communications (ICT) sub-sectors. Of significance, the progress of approved projects in recent years is well on track, with 74% of manufacturing projects approved from 2021 to 2023 being implemented or completed.
Public Investment	8.6	6.2	<ul style="list-style-type: none"> For the third consecutive year, public investment is projected to expand above its pre-COVID-19 average growth (2011-2019: -0.2%) driven by both the General Government and public corporations. Key investment includes ongoing large-scale infrastructure projects, such as the East Coast Rail Link (ECRL), Pan Borneo Highway and Rapid Transit System Link (RTS Link). The Government's fixed assets spending is channelled mainly towards transportation, education and healthcare projects. In addition, catalytic investments under the NETR in areas such as renewable energy, green mobility, and carbon capture, utilisation and storage (CCUS) would provide further support to growth.
Net External Demand	(11.3)	2.1	<ul style="list-style-type: none"> Sustained global growth momentum (2024F: 2.7%-3.2%; 2023: 3.1%) Pick up in global trade growth (2024F: 2.9%-3.4%; 2023: 0.4%)
Exports of Goods & Services	(7.9)	4.0	<ul style="list-style-type: none"> Rebound in gross exports (2024F: 5.0%; 2023: -8.0%) driven by global trade growth and tech upcycle driving up E&E and non-E&E exports, plus higher prices and/or shipments of major commodities, thus rebounds in manufacturing (2024F: 4.7%; 2023: -6.7%), agriculture (2024F: 9.7%; 2023: -22.1%) and mining (2024F: 3.6%; 2023: -10.1%) exports.
Imports of Goods & Services	(7.6)	4.1	<ul style="list-style-type: none"> Rebound in gross imports (2024F: 5.4%; 2023: -6.4%) on higher intermediate imports (2024F: 5.6%; 2023: -12.1%) amid firmer manufacturing sector growth, and domestic demand pick up lifting consumption goods (2024F: 4.6%; 2023: 0.1%) alongside continued expansion in imports of capital goods (2024F: 7.7%; 2023: 7.1%) in tandem with investment growth.

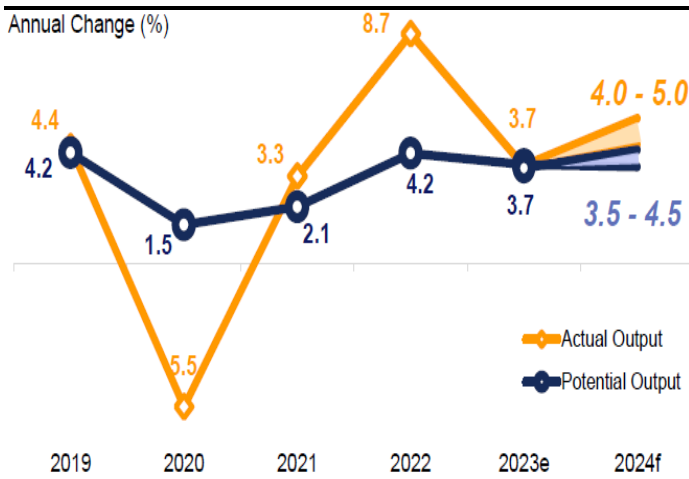
Source: BNM (EMR 2023)

Figure 4: Real GDP Growth - By Sectors, 2022-2023 (% chg)

	2022	2024F	Details / Remarks
Services	5.3	5.5	<ul style="list-style-type: none"> Stable job market (unemployment rate - 2024F: 3.3%; 2023: 3.4%; employees compensation growth - 2024F: 5.5%-6.5%; 2023E: 5.3%-5.7%), and further recovery in consumer- and tourism-related services such as retail, F&B and accommodation as inbound tourist arrivals expected to be at 27.3m in 2024 (2023: 20.1m). External trade rebound and implementation of private and public construction projects support transport & storage, real estate and business services. Rollout of 5G network coverage and its increased subscriptions will drive information and communications services.
Manufacturing	0.7	3.5	<ul style="list-style-type: none"> Recovery in the export-oriented industries and sustained growth in the domestic-oriented cluster. E&E production is projected to stage a modest rebound in 1H 2023, with a stronger recovery anticipated in 2H 2023, driven by the upswing in the global technology cycle, amid improving external demand for integrated circuits and semiconductors related to technological megatrends such as digitalisation, Internet of Things (IoT), 5G network, and electric vehicles (EV). Primary-related cluster is expected to grow steadily. This will be underpinned by improving upstream supply conditions coupled with production ramp-up in one of the major oil refineries in Johor. Consumer-related cluster will remain supported by continued recovery in tourism activities, amid normalising vehicle sales. Construction-related cluster is expected to benefit from the continued progress of multi-year investment projects.
Agriculture	0.7	(0.5)	<ul style="list-style-type: none"> Dry weather conditions associated with the El Niño and the effects of previous years' under-fertilisation would lead to lower oil palm production. Nevertheless, the continuous training of migrant workers would support output through higher productivity. The unfavourable weather could also affect other agriculture subsectors, such as paddy farming and fisheries.
Mining	1.0	3.5	<ul style="list-style-type: none"> Higher oil & gas output i.e. ramp-up in key oil fields in Sarawak will drive higher oil production; production enhancements in Block SK320 and commencement of a new field in Sarawak will drive higher natural gas production.
Construction	6.1	6.7	<ul style="list-style-type: none"> Sustained activities in the civil engineering, special trade and residential subsectors i.e. new and ongoing large infrastructure and small-scale projects under the Budget 2024, NIMP 2030 and NETR; new housing launches amid further improvement in housing demand.

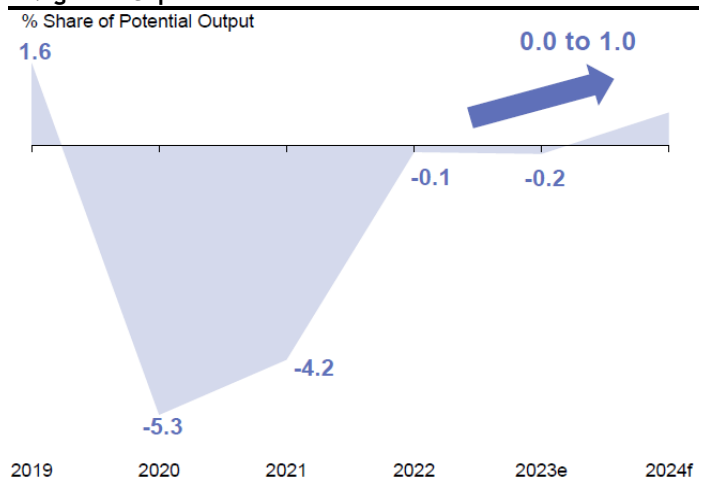
Source: BNM (EMR 2023)

Figure 5: Actual Output and Potential Output Growth



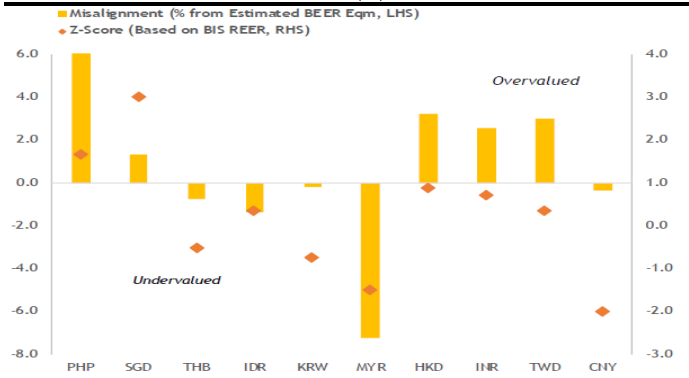
Source: BNM (EMR 2023)

Figure 6: Output Gap Turning Positive in 2024 After Negative Gap in 2020-2023



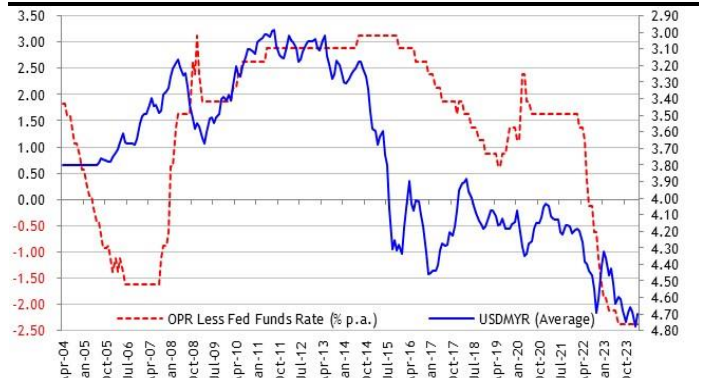
Source: BNM (EMR 2023)

Figure 7: Selected East Asian Currencies - Estimated Under/Over Valuation vs USD (%)



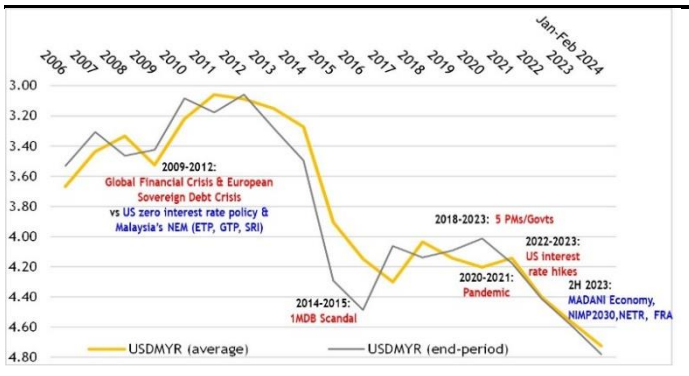
Source: Maybank FX Research & Strategy

Figure 8: USDMYR vs Malaysia-US Interest Rate Differential



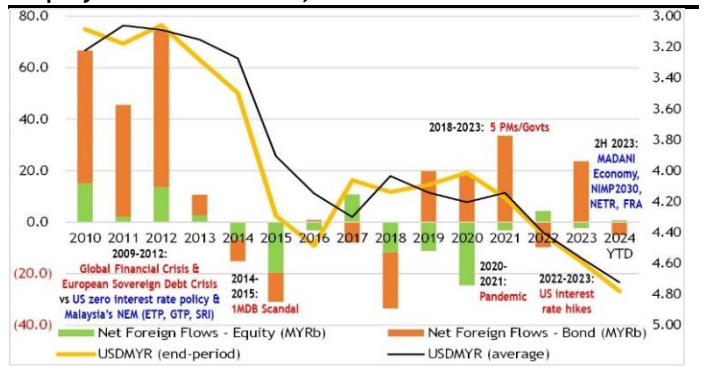
Sources: Bloomberg, CEIC

Figure 9: USDMYR vs Key Domestic & External Events, 2006-2024YTD



Sources: CEIC, Maybank IBG Research

Figure 10: USDMYR vs Net Foreign Flows into Malaysian Equity and Bond Markets, 2010-2024YTD



Sources: CEIC, Bank Negara Malaysia, Bursa Malaysia

Figure 11: BNM's MPC Meeting Dates & OPR Decisions, 2020-2024

Date	Outcome
21-22 January 2020	OPR cut by 25bps to 2.75%
2-3 March 2020	OPR cut by 25bps to 2.50%
4-5 May 2020	OPR cut by 50bps to 2.00%
6-7 July 2020	OPR cut by 25bps to 1.75%
9-10 September 2020	OPR maintained at 1.75%
2-3 November 2020	OPR maintained at 1.75%
19-20 January 2021	OPR maintained at 1.75%
3-4 March 2021	OPR maintained at 1.75%
5-6 May 2021	OPR maintained at 1.75%
7-8 July 2021	OPR maintained at 1.75%
8-9 September 2021	OPR maintained at 1.75%
2-3 November 2021	OPR maintained at 1.75%
19-20 January 2022	OPR maintained at 1.75%
2-3 March 2022	OPR maintained at 1.75%
10-11 May 2022	OPR raised by 25bps to 2.00%
5-6 July 2022	OPR raised by 25bps to 2.25%
7-8 September 2022	OPR raised by 25bps to 2.50%
2-3 November 2022	OPR raised by 25bps to 2.75%
18-19 January 2023	OPR maintained at 2.75%
8-9 March 2023	OPR maintained at 2.75%
2-3 May 2023	OPR raised by 25bps to 3.00%
5-6 July 2023	OPR maintained at 3.00%
6-7 September 2023	OPR maintained at 3.00%
1-2 November 2023	OPR maintained at 3.00%
23-24 January 2024	OPR maintained at 3.00%
6-7 March 2024	OPR maintained at 3.00%
8-9 May 2024	-
10-11 July 2024	-
4-5 September 2024	-
5-6 November 2024	-

Source: BNM

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