BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIDANG AKHBAR

- *LAPORAN TAHUNAN BNM 2023*
- *TINJAUAN EKONOMI & MONETARI 2023*
- *TINJAUAN KESTABILAN KEWANGAN SEPARUH KEDUA 2023*

20 MAC 2024

Overview

The Malaysian economy to improve in 2024

In 2023, the Malaysian economy expanded by 3.7% driven by resilient domestic demand amid slower global growth

Growth is projected to improve in 2024 supported by continued expansion in domestic demand and recovery in exports

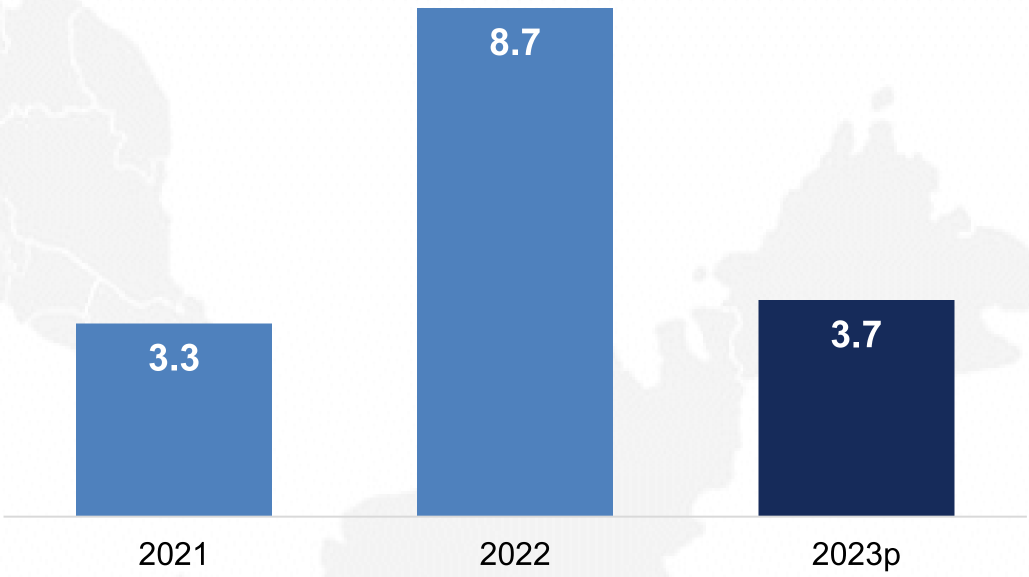
The outlook remains subject to downside risks from both domestic and global factors

In 2023, the Malaysian economy expanded by 3.7%

Growth was driven by resilient domestic demand amid slower global growth

Malaysia's Yearly Real GDP growth

Annual change (%)



p Preliminary

Source: Department of Statistics Malaysia and Bank Negara Malaysia

Consumption and investment spending expanded, albeit more modest in 2023, after a strong recovery in 2022

Private Consumption
Annual change (%)

4.7%

(2022: 11.2%)

Total investment
Annual change (%)

5.5%

(2022: 6.8%)

Weaker external demand and global technology downcycle weighed on production and exports

Manufacturing
Annual change (%)

0.7%

(2022: 8.1%)

Exports of Goods and Services
Annual change (%)

-7.9%

(2022: 14.5%)

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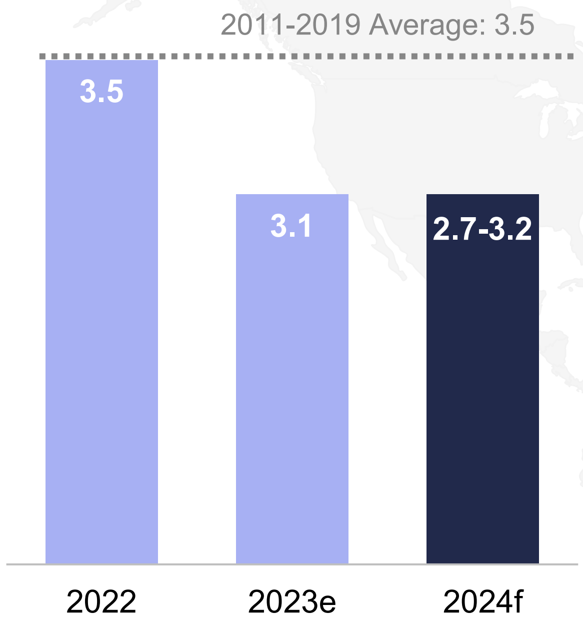
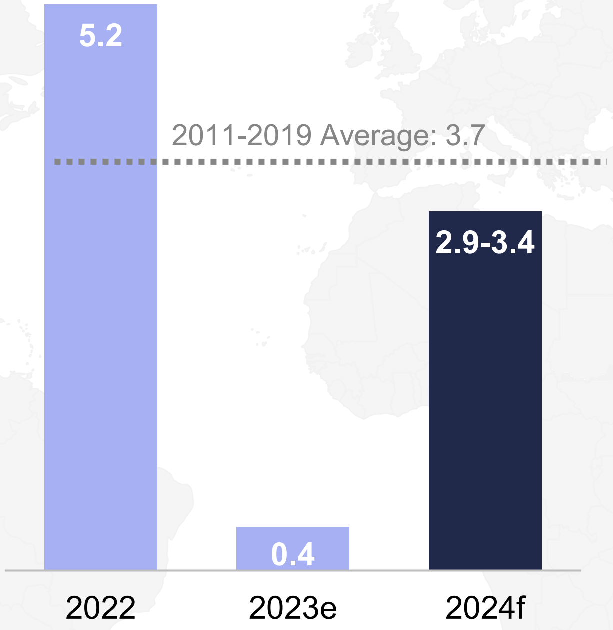
Global growth to sustain and trade to rebound in 2024

Global Real GDP Growth
Annual Change (%)



Global Trade
Annual Change (%)



Global growth will be supported by:

- ▲ Resilient labour markets supporting consumption
- ▲ Global trade rebound, driven by technology upcycle and tourism activities
- ▲ Continued moderation in global inflation

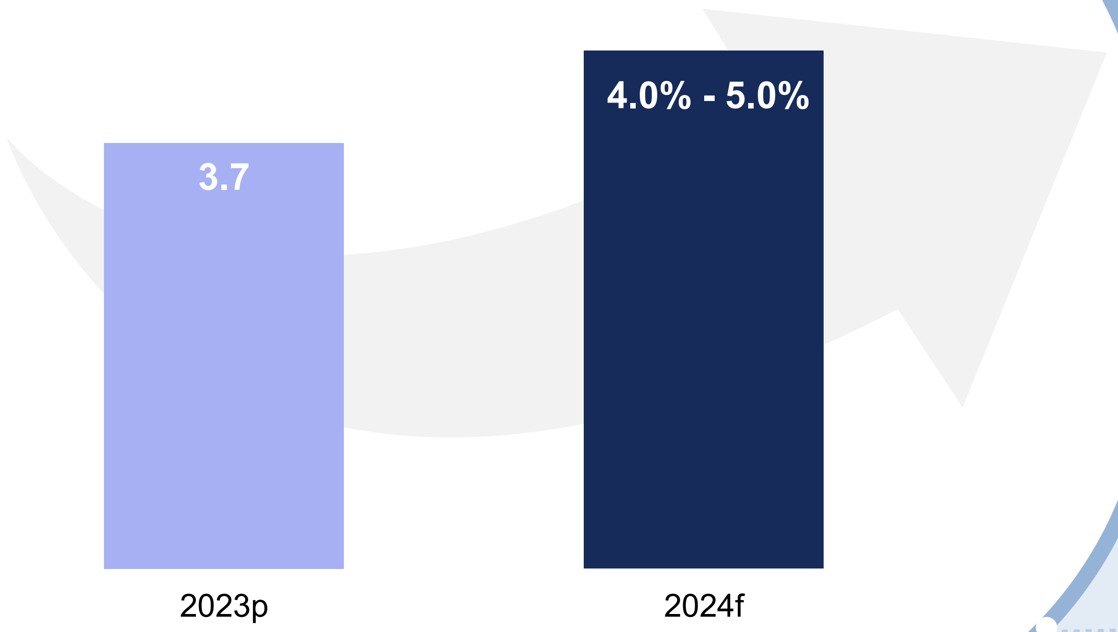
… but headwinds could arise from:

- ▼ Impact from high interest rate environment
- ▼ Geopolitical tensions
- ▼ Withdrawal of fiscal support

e Estimate, f Forecast
Note: 2024 global growth and global trade forecast range is based on Bank Negara Malaysia's estimates
Source: International Monetary Fund, Bank Negara Malaysia estimates

The Malaysian economy to grow 4.0% - 5.0% in 2024

Malaysia GDP Growth
Annual Change (%)



Note: p Preliminary, f Forecast
Source: Department of Statistics Malaysia and Bank Negara Malaysia estimates

Key Growth Drivers in 2024

Continued expansion in household spending

Higher income growth and continued expansion in employment

Improvement in investment

Supported by new and ongoing multi-year projects as well as implementation of national master plans

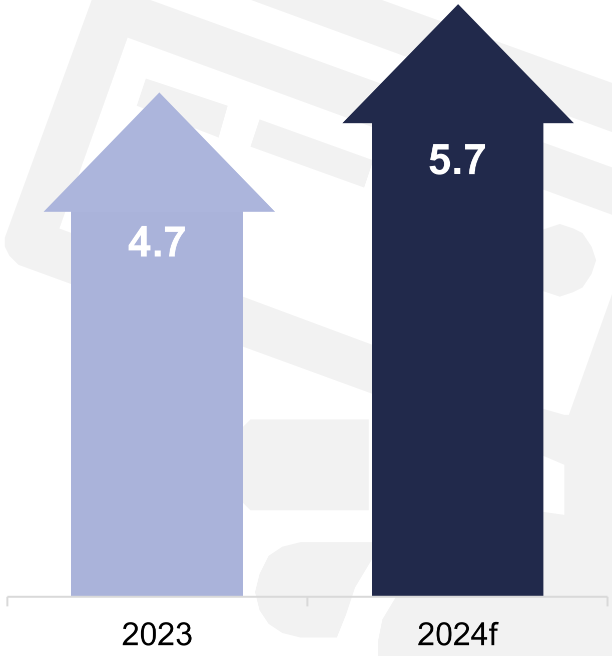
Recovery in goods trade activity

Stronger global trade amid the technology upcycle

Further improvement in tourist arrivals and spending

Household spending underpinned by improving income…

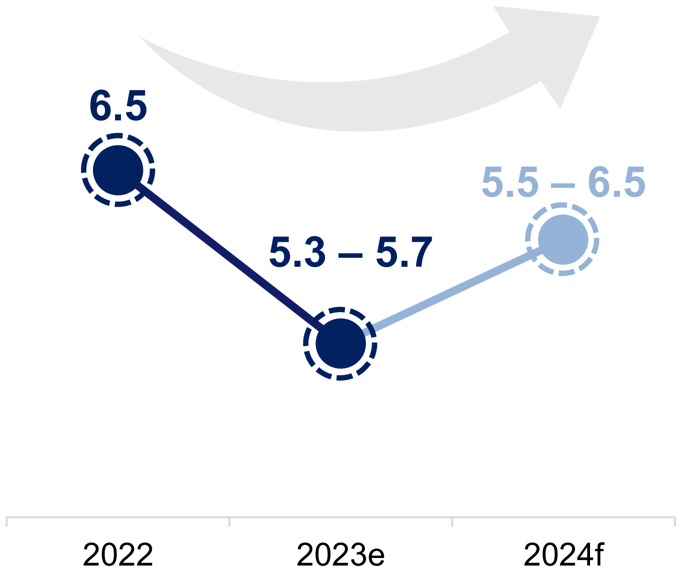
Real private consumption
Annual change (%)
(2015-'19 avg.: 6.9%)



Factors supporting private consumption

1 **Higher income growth**

Nominal Compensation of Employees, COE[1]
Annual change (%)
(2015-'19 avg.: 7.0%)



Factors supporting income growth

Higher external demand
Export-oriented manufacturing[2] income: 17.5% of total nominal COE (2022)

Continued improvement in tourism
Tourism-related[3] sectors income: 18.5% of total nominal COE (2022)

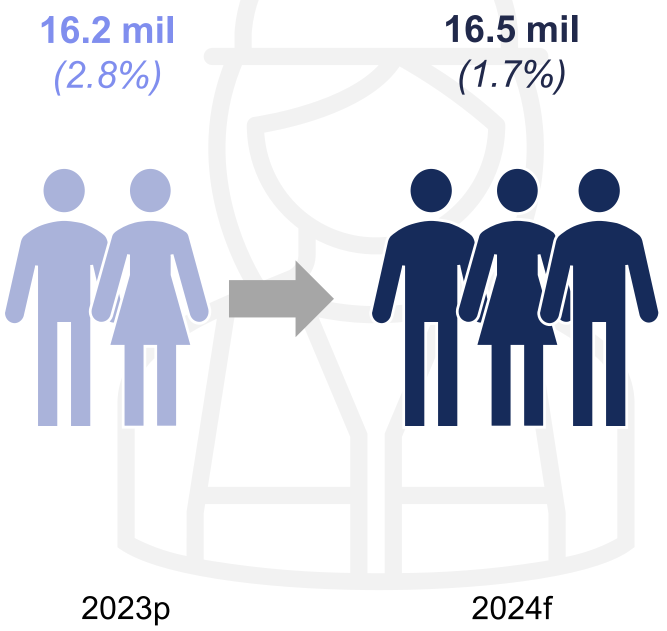
Higher productivity especially from digitalisation and automation
Investments in ICT, machinery & equipment 2022: 28.3% of total investment (2015-19 avg: 21.6%)

1/ COE: Compensation of employees comprises employees' remuneration in cash such as salary and bonuses or in-kind including staff accommodation and social contribution paid by employers.
2/ Export-oriented manufacturing refers to manufacturing subsectors related to textiles & apparel, wood & furniture, petroleum, chemical, rubber & plastics, and electrical and electronic (E&E).
3/ Tourism-related sectors refers to wholesale & retail trade, food & accommodation services subsectors.
Note: f = forecast, e = estimate
Source: Department of Statistics Malaysia and Bank Negara Malaysia estimates

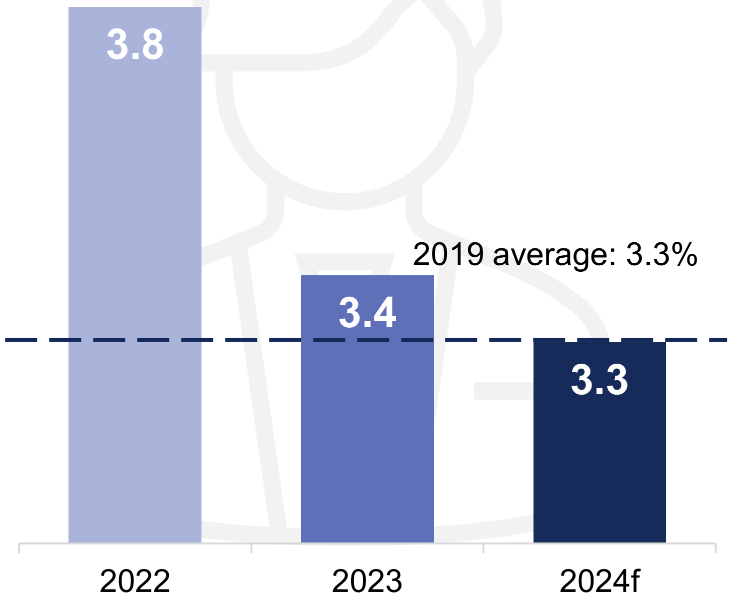
…and favourable labour market conditions, with additional policy support

2 Continued employment growth and low unemployment rate

Employment level and growth
Number of persons and annual change (%)



Unemployment rate
% of labour force



3 Targeted policy measures

Measures to raise employment…

- Upskilling and training initiatives
- Hiring incentives for vulnerable groups
- Tax incentives for women returning to work

…and household income

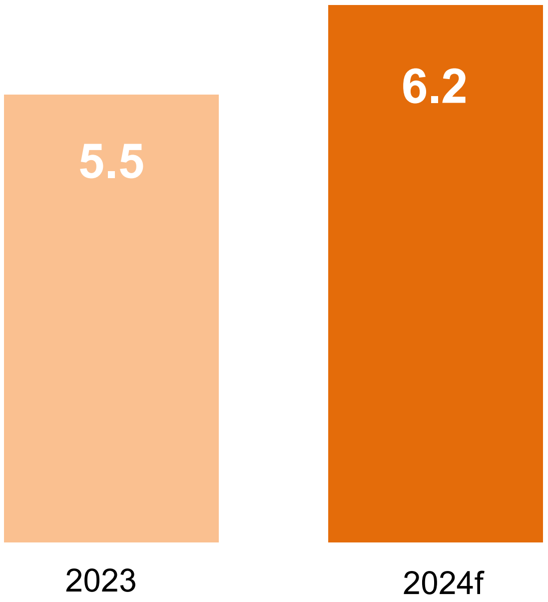
- **Targeted cash assistance** (*e.g. Sumbangan Tunai Rahmah*)
- **Early incentive payment for Civil Servants**

Source: Department of Statistics Malaysia, Ministry of Finance Malaysia, and Bank Negara Malaysia estimates

Investments supported by new and ongoing multi-year projects and implementation of national master plans will contribute to growth

Continued expansion in capital spending…

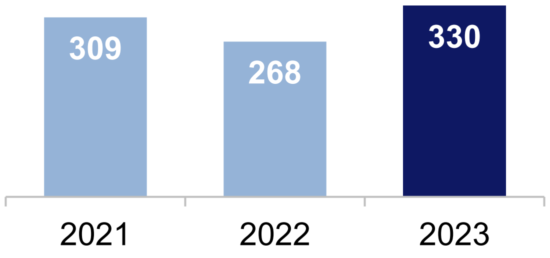
Real Gross Fixed Capital Formation
Annual change (%)
Avg. 2011-19: 5.5%



f forecast
1/ Source: MIDA media release, 29 February 2024
2/ The list is not exhaustive
Source: Department of Statistics Malaysia, Malaysian Investment Development Authority, Bank Negara Malaysia estimates, newsflows

…as the implementation of approved investments are well on track

MIDA: Total Approved Investment
RM bil



Approved Investment in 2021-2023 by Selected Industries

E&E investments
RM262.7 bil

ICT investments
RM161.4 bil

*"Between 2021 - '23, **74%** of approved mfg. projects are in various stages of implementation[1]"*

Further support by implementation of multi-year investments, including projects in industries promoted by the national master plans

Ongoing Projects[2]

ECRL
RM50 bil
(2018-'27)

Pan Borneo Highway (Sabah) Phase 1a
RM16 bil
(2016-'24)

Kasawari Carbon Capture & Storage
RM4.5 bil
(2022-'26)

MyDIGITAL 5G
RM16.5 bil
(2021-'31)

RTS Link
RM3.7 bil
(2021-'26)

Nenggiri Hydro
RM5 bil
(2022-'27)

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Services and manufacturing to be the key driver of growth in 2024

Services (2024f: 5.5%) *2023p: 5.3%*

- *Higher tourism activities*
- *Trade recovery to support logistics*
- *Ongoing construction projects*

Manufacturing (2024f: 3.5%) *2023p: 0.7%*

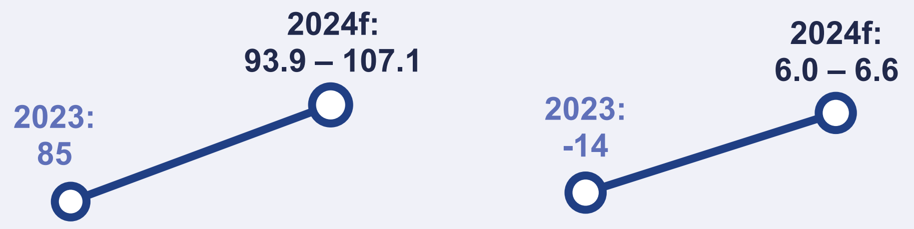
- *Rebound in E&E*
- *Recovery in primary-related cluster amid improvement in upstream supply conditions*

Agriculture (2024f: -0.5%) *2023p: 0.7%*

- *El Niño and under-fertilisation to affect CPO yields*

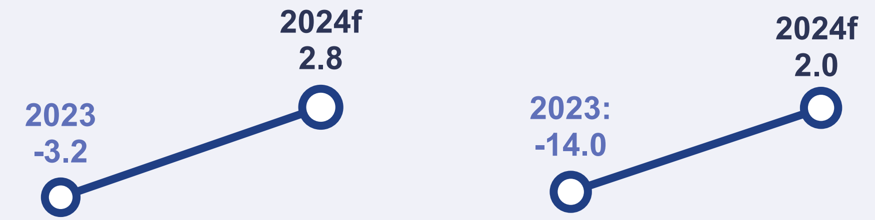
MAVCOM Malaysia Air Traffic Forecast

Passenger (mil passengers) | Cargo (% annual change)

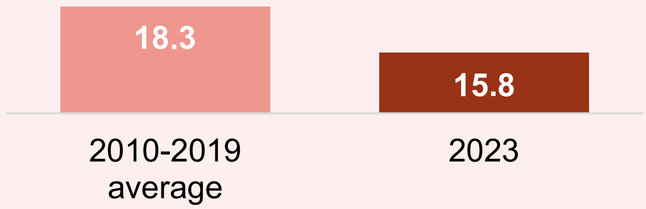


IDC Global Device Shipments Outlook (% annual change)

Smartphones | Personal Computers



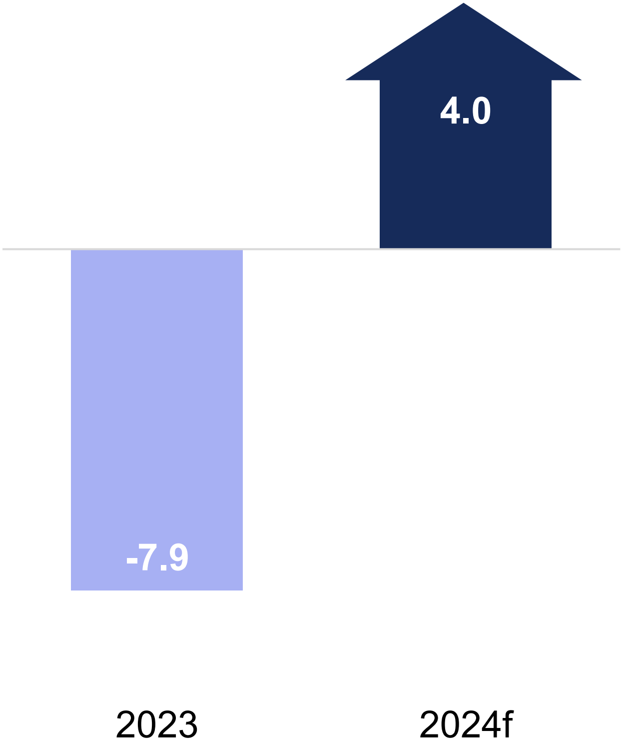
MPOB Fresh Fruit Bunches (FFB) yields (mil tonne per hectare)



p: Preliminary, f: Forecast
Note: The 2024 growth forecasts are annual growth forecasts for services, manufacturing and agriculture based on Bank Negara Malaysia's estimates
Source: Malaysian Aviation Commission (MAVCOM); International Data Corporation (IDC); Malaysian Palm Oil Board (MPOB); Department of Statistics Malaysia, Bank Negara Malaysia estimates

Rebound in global trade, technology cycle and tourism to provide impetus to Malaysia's export growth

Real Exports of Goods & Services
% Annual change

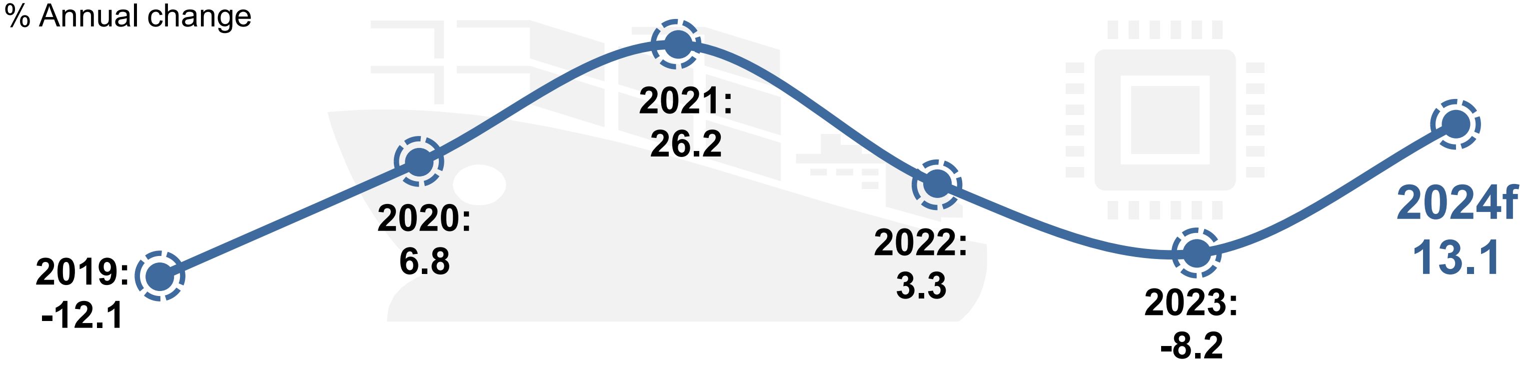


f forecast

Source: Department of Statistics Malaysia, World Semiconductor Trade Statistics (WSTS), Ministry of Tourism, Arts and Culture Malaysia (MOTAC), Bank Negara Malaysia estimates

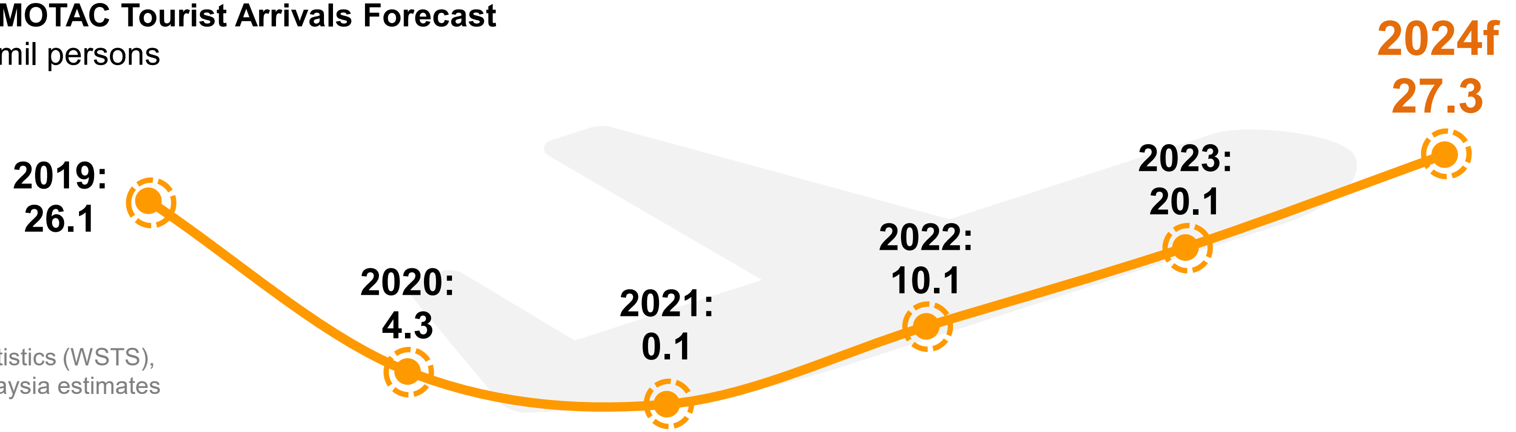
Recovery in technology cycle

WSTS Global Semiconductor Sales Forecast
% Annual change



Higher inbound tourism

MOTAC Tourist Arrivals Forecast
mil persons



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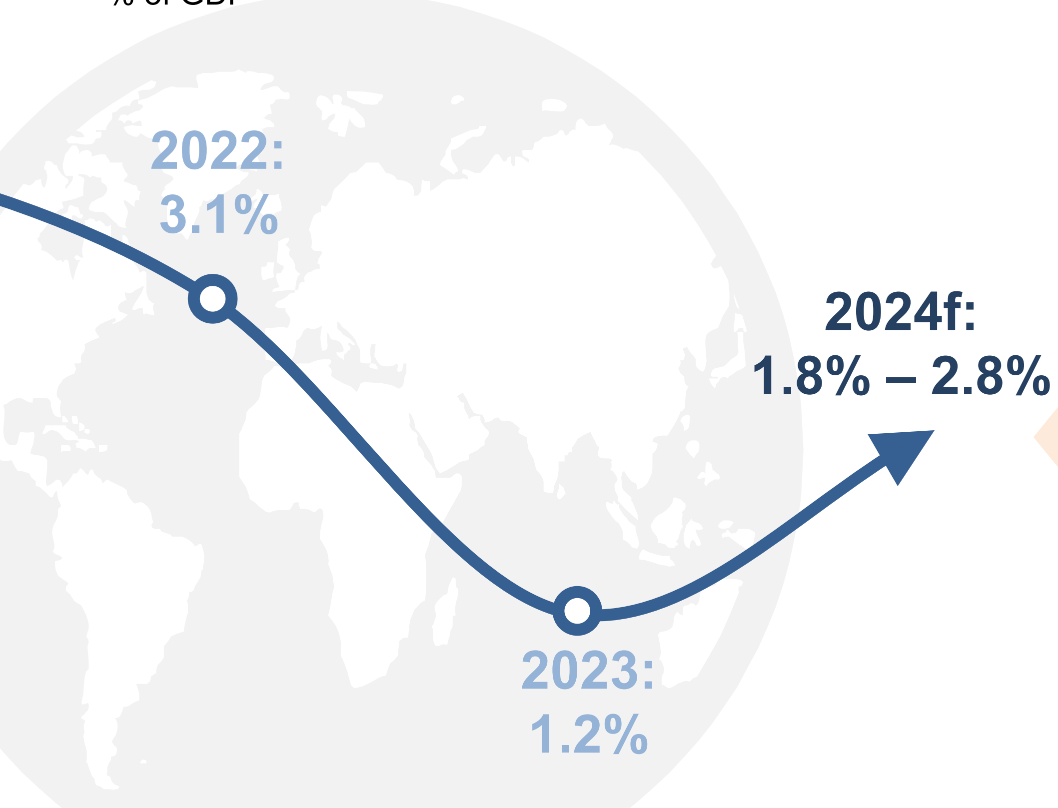
Current account surplus to improve to 1.8% – 2.8% of GDP in 2024

Improvement driven mainly by higher goods surplus and lower services deficit

Current Account Balance
% of GDP



Factors supporting 2024 current account balance

- Recovery in global trade and tech cycle
- Higher commodity prices
- Improving travel receipts

f forecast
Source: Department of Statistics Malaysia, Bank Negara Malaysia estimates

The growth outlook remains subject to downside risks

Upside risks

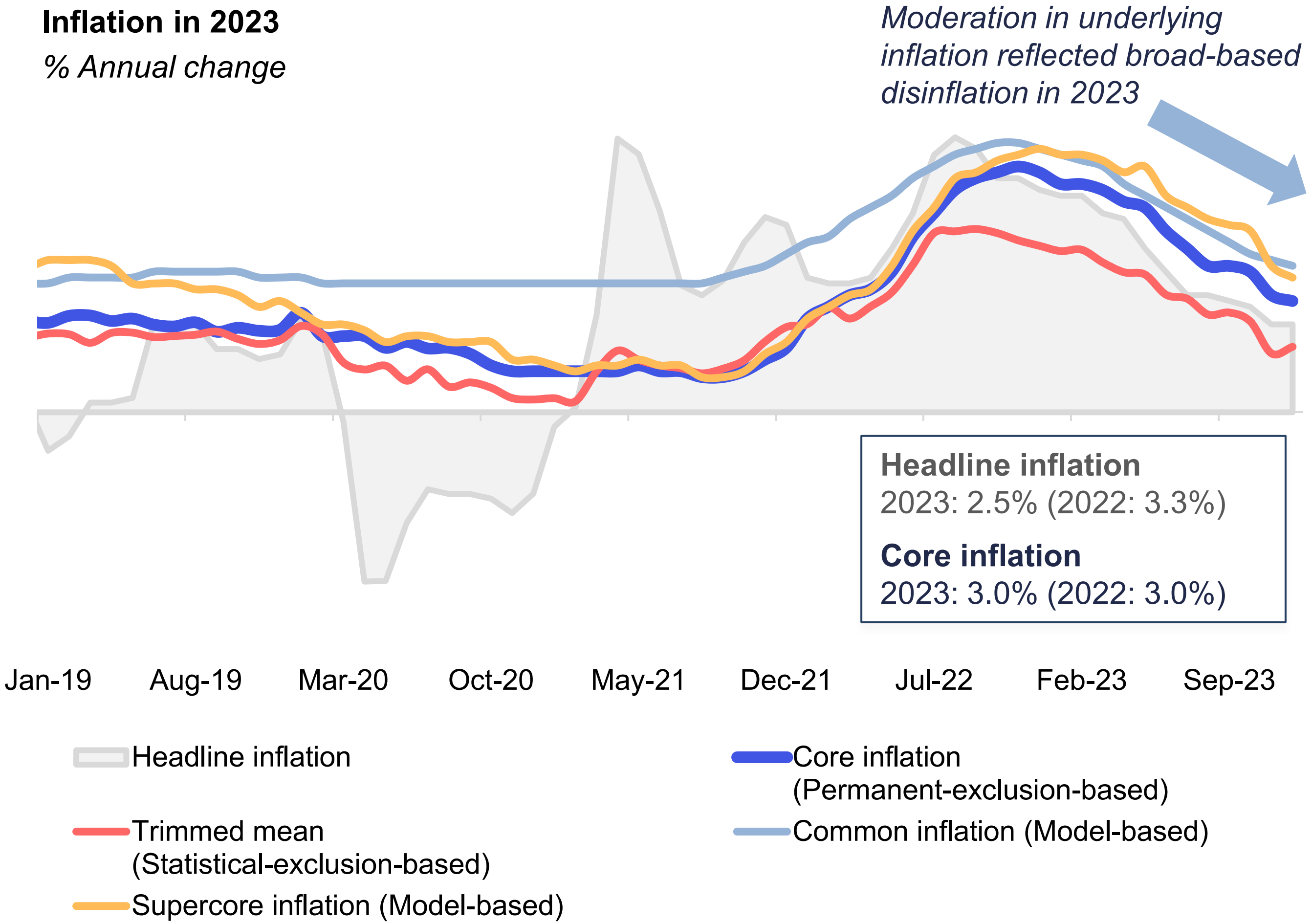
- ▲ Greater spillover from the **tech upcycle**
- ▲ More robust **tourism activity**
- ▲ Faster implementation of **new and existing investment projects**

Downside risks

- ▼ Weaker-than-expected **external demand**
- ▼ Further escalation of **geopolitical conflicts**
- ▼ Larger decline in **commodity production**

In 2023, disinflation was broad-based amid easing cost environment and stabilising demand conditions

Inflation in 2023
% Annual change



Source: Department of Statistics Malaysia and Bank Negara Malaysia estimates

Measures of underlying inflation

More reflective of the medium-term path of the general price level compared to headline inflation

Permanent-exclusion-based
- Core inflation (*as published by DOSM*)

Statistical-exclusion-based
- Trimmed mean
- Weighted median
- Double weighted

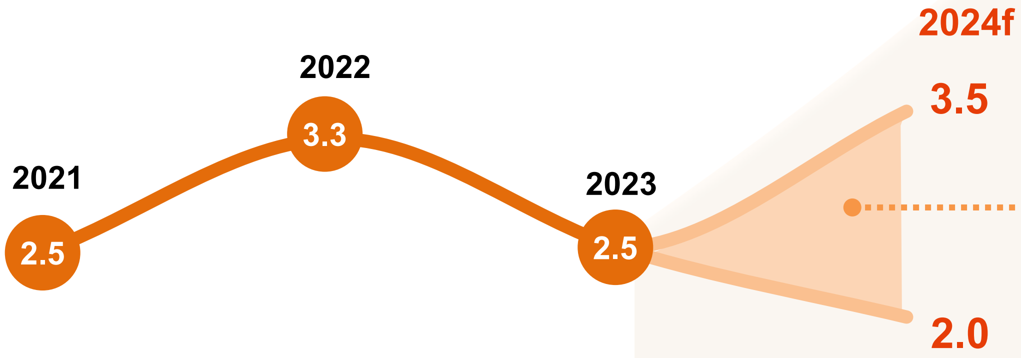
Model-based
- Common inflation
- Supercore inflation

Source: Bank Negara Malaysia based on European Central Bank (ECB) Economic Bulletin Issue 4/2018

For more details, please refer to the EMR 2023 box article "Underlying Inflation at its Core"

Headline inflation to average between 2.0% and 3.5% in 2024

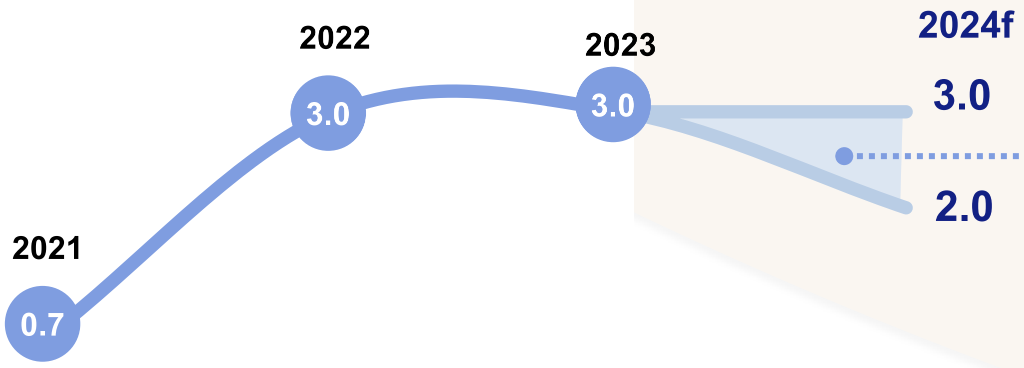
Headline Inflation
Annual Change, %



Headline inflation to average between 2.0% - 3.5% *(2023: 2.5%)*

- *Partly reflecting the potential upside from domestic subsidy rationalisation*

Core Inflation
Annual Change, %



Core inflation to average between 2.0% - 3.0% *(2023: 3.0%)*

- *Amid stable cost and demand conditions*

Source: Department of Statistics Malaysia and Bank Negara Malaysia estimates

Risks to the inflation outlook remain tilted to the upside

Upside risks

- ▲ Higher prices from the potential review of fuel subsidies
- ▲ Higher input costs due to exchange rate developments
- ▲ Higher global commodity prices amid worsening geopolitical tensions and weather disruptions

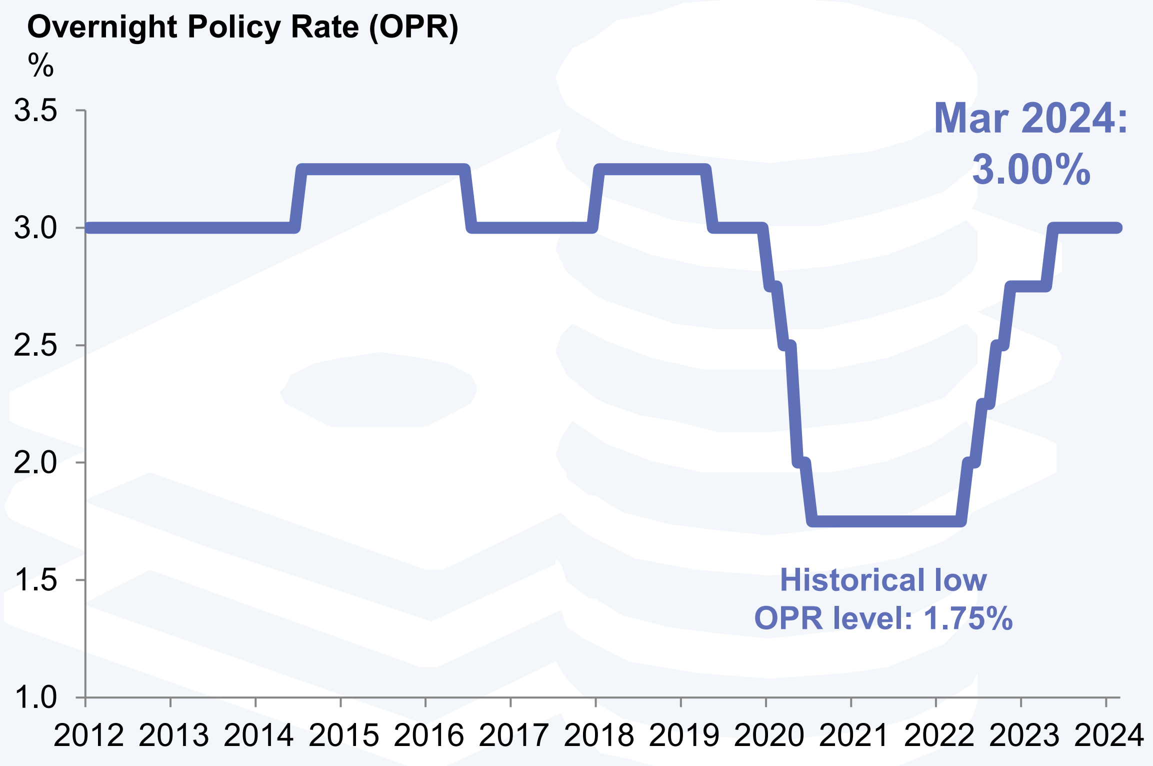
Downside risks

- ▼ Softer commodity prices from weaker global growth

Monetary policy remains focused on maintaining price stability to facilitate sustainable domestic economic growth

2023

OPR raised to 3.00%, to fully withdraw the policy stimulus provided during the COVID-19 crisis



2024

Monetary policy will remain conducive to sustainable economic growth while managing potential risks to inflation

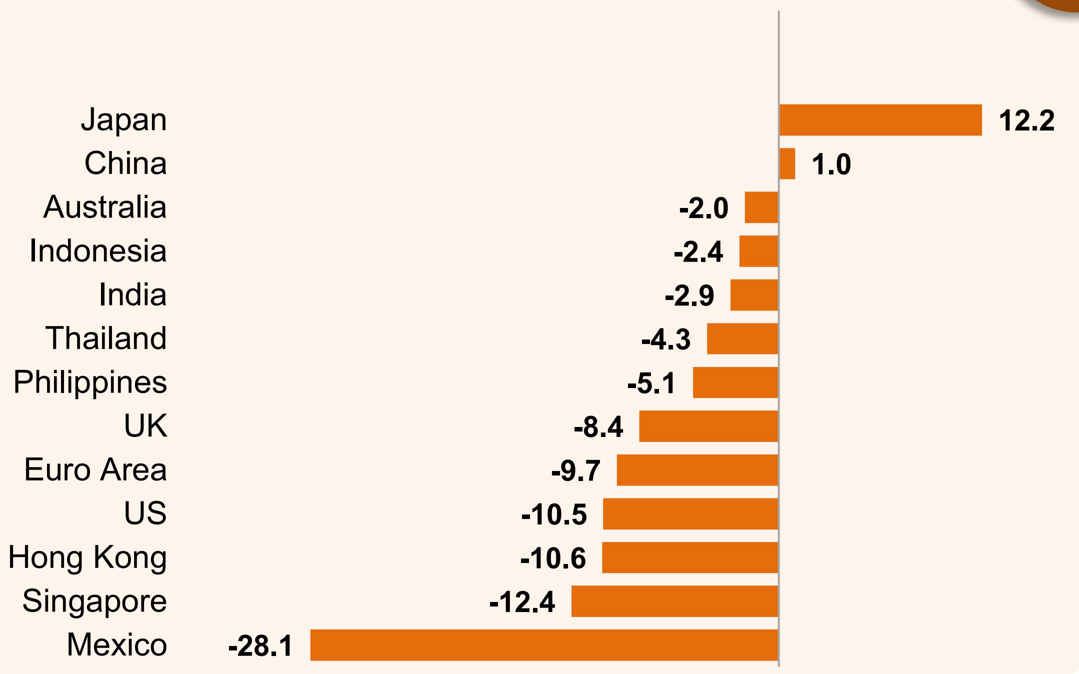
- Monetary policy will focus on the medium-term prospects of Malaysia's economy
  - Assessment includes short and longer-term impact of domestic policy on inflation and growth
- Monetary policy will continue to balance the risks to domestic inflation and economic growth outlook
- The MPC remains vigilant to ongoing developments amid the evolving economic landscape

Source: Bank Negara Malaysia

Greater policy rate increases in other countries have affected the ringgit against other currencies

Magnitude of Policy Rate Increases in Selected Countries
% (as at 15 March 2024)

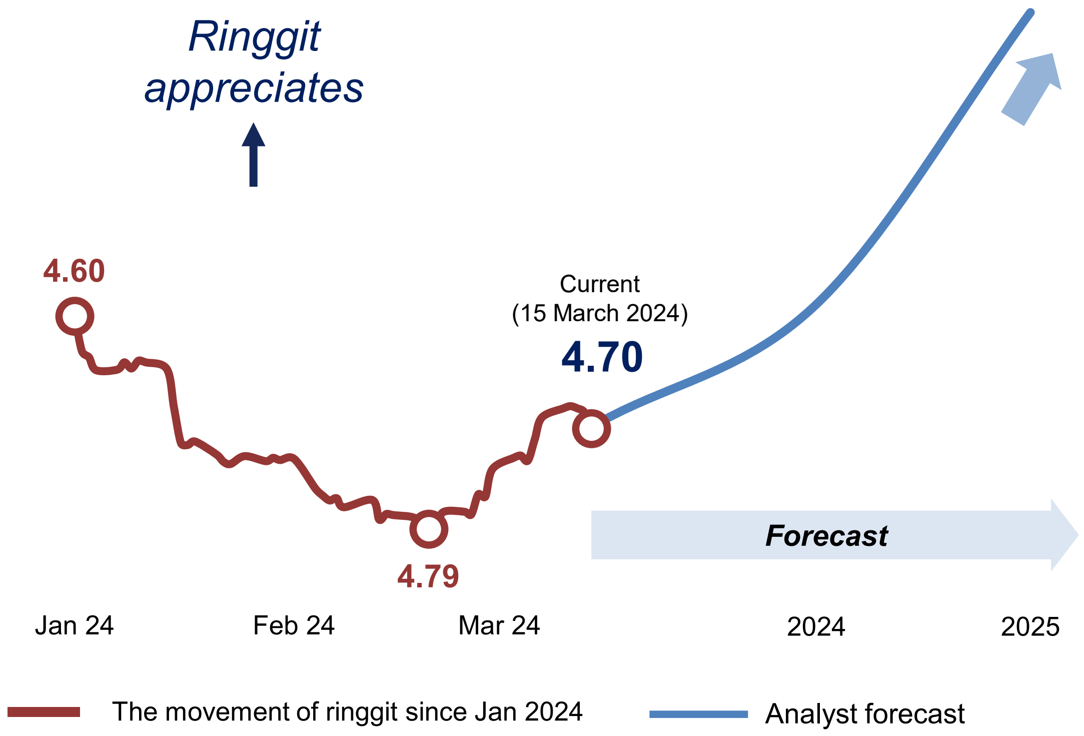
Performance of MYR Against Selected Currencies,
% (15 Mar 2022 – 15 March 2024)



Note: All of the above are central bank policy rates except for Singapore (interbank rate (SORA));
Source: Bloomberg, Department of Statistics Malaysia

Going forward, global and domestic factors are expected to support a gradual recovery of the ringgit in 2024

Analysts expect a recovery of the ringgit in 2024…



Source: Bloomberg as at 15 March 2024

…supported by global and domestic developments

Global (baseline)	Impact on RM
Monetary policy easing in the US	▲
Stronger regional growth due to rebound in trade	▲
China's growth to moderate lower in 2024	▼
Easing commodity price over the course of the year	▼

Domestic (baseline)	Impact on RM
Structural reforms will provide enduring support	▲
Favourable domestic growth outlook	▲

While ringgit is affected by cyclical factors, growth prospects and sound fundamentals suggest the currency is undervalued

Ringgit performance has been mainly affected by cyclical factors…

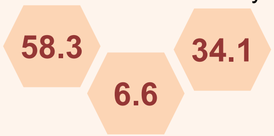
- Interest rate differentials
- Global Economic Fluctuations
- Investor Sentiments

BNM is taking concerted measures to manage the pressure

- Encourage conversion of FCY income by GLCs and GLICs
- Actively engage Corporates and Investors
- Monitor conversion of export proceeds and import payments

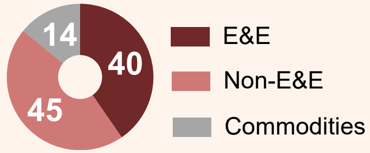
…however, sound domestic fundamentals and positive prospects will lend support to the ringgit

Diversified economy



% Share of GDP, 2023

Diversified Export Product Mix



Export Products, Share of Gross Exports, 2023 (%)

Sound Financial Sector

18.5% Total Capital Ratio (2023)

RM142.6bil Excess Total Capital (2023)

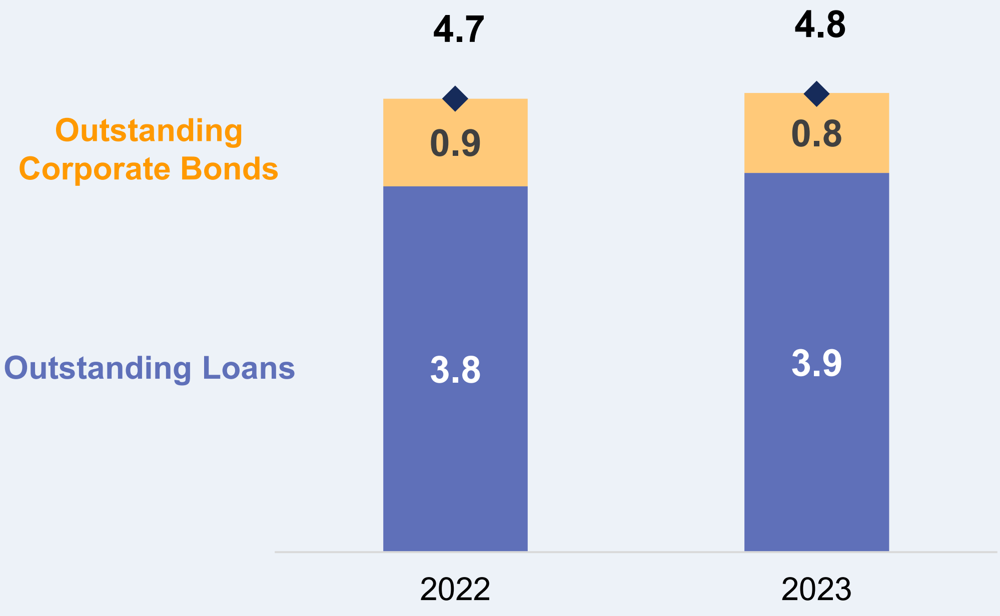
Fundamentals	*2023*	*2024[f]*	*2015-19[2]*
Economic Growth *(%)*	3.7	4.0 - 5.0	*4.9*
Inflation *(%)*	2.5	2.0 - 3.5	*1.9*
Gross Exports Growth *(%)*	- 8.0	5.0	*5.6*
Current Account Surplus *(% of GDP)*	1.2	1.8 - 2.8	*2.8*
Productivity per worker *(%)*	0.9	2.3 - 3.3	*3.2*

Note: [f] forecast
1/ Industry consists of manufacturing, mining and construction sector
2/ 5-year average
Source: Department of Statistics Malaysia, International Monetary Fund and Bank Negara Malaysia

Growth in credit to private non-financial sector to remain supportive of economic activity

Credit to private non-financial sector continued to expand at a steady pace

Credit to private non-financial sector
Annual Change (%) / Cont. to growth (ppt)



Moving forward, financing conditions will continue to remain supportive of economic activity

- Strong lending capacity among banks, given healthy capital and liquidity buffers
- Continued willingness to lend by banks
- Repayment capacity of household remained sound
- Demand for credit supported by steady employment and wage growth
- Continued availability of targeted support, including funds for SMEs

Note: Outstanding loans refer to the sum of outstanding business and household loans, and exclude loans to financial institutions, government, NBFIs and other entities. In addition to loans from the banking system and development financial institutions (DFIs), credit to the private non-financial sector reported here also includes loans to households extended by major non-bank financial institutions (NBFIs). Outstanding corporate bonds include conventional and Islamic short-term papers in addition to longer-term bonds and sukuk, and excludes issuances by Cagamas, government, financial institutions, and NBFIs.

Numbers may not add up due to rounding.

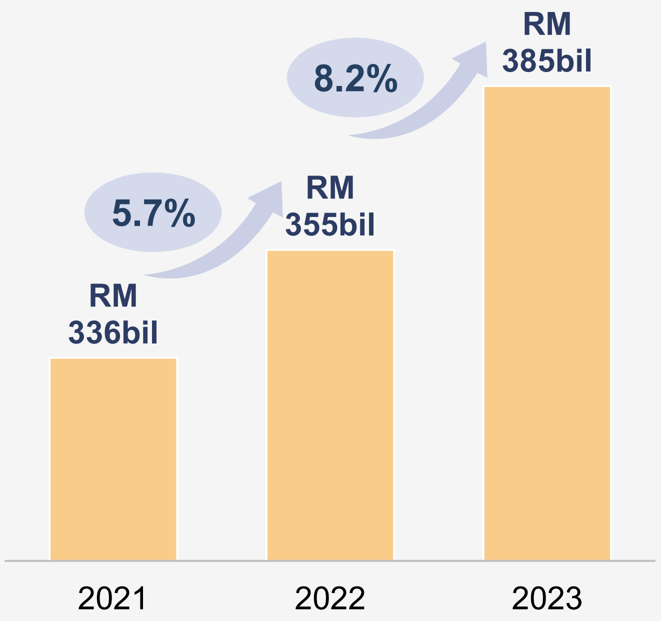
Source: Bank Negara Malaysia

Banks remain supportive of SMEs' financing needs

SME financing grew higher at 8.2% in 2023

Outstanding SME Financing

Amount outstanding Annual change (%)

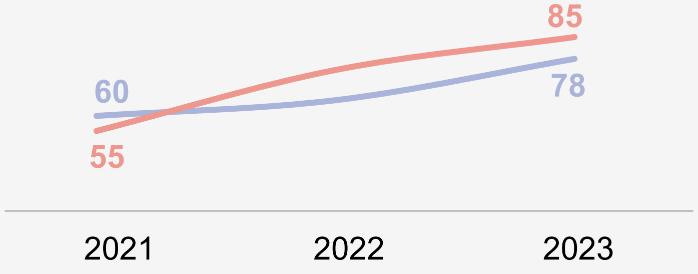


Sustained high level of approvals and disbursements

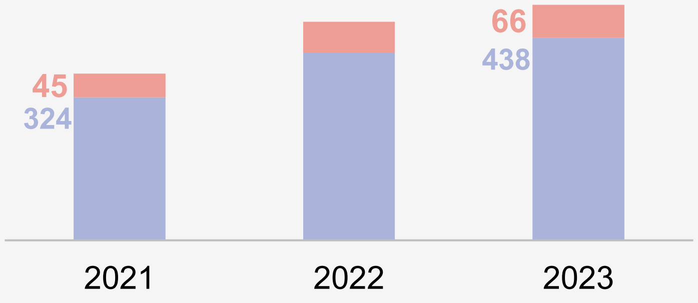
SME Financing Approvals & Disbursements

Working capital Investment-related[1]

Approvals (RM bil)



Disbursements (RM bil)



Record growth of 23% for total financing in strategic sectors

Outstanding SME Financing to Strategic Sectors[2]

RM bil	Dec-22	Dec-23
Total	16.6	20.5
ICT	4.0	6.5
Chemicals & Pharmaceutical	3.3	3.8
Machinery	3.1	3.3
Transport and Equipment	2.2	2.4
Electrical & Engineering	1.9	2.3
Research & Development	1.8	1.9
Medical	0.3	0.3
Optical	0.1	0.1

1/ Investment-related purpose includes financing for the purchase of non-residential properties, residential properties for business use, fixed assets (incl. cars), and construction activity.
2/ Strategic Sectors refers to sectors most aligned to the long-term strategic development goals for Malaysia under the National Investment Aspirations.
Note: Reflects loan/financing from the banking system and development financial institutions (DFIs)
Source: Bank Negara Malaysia

Banks are well-positioned to support financial intermediation even under severe simulated downside scenarios

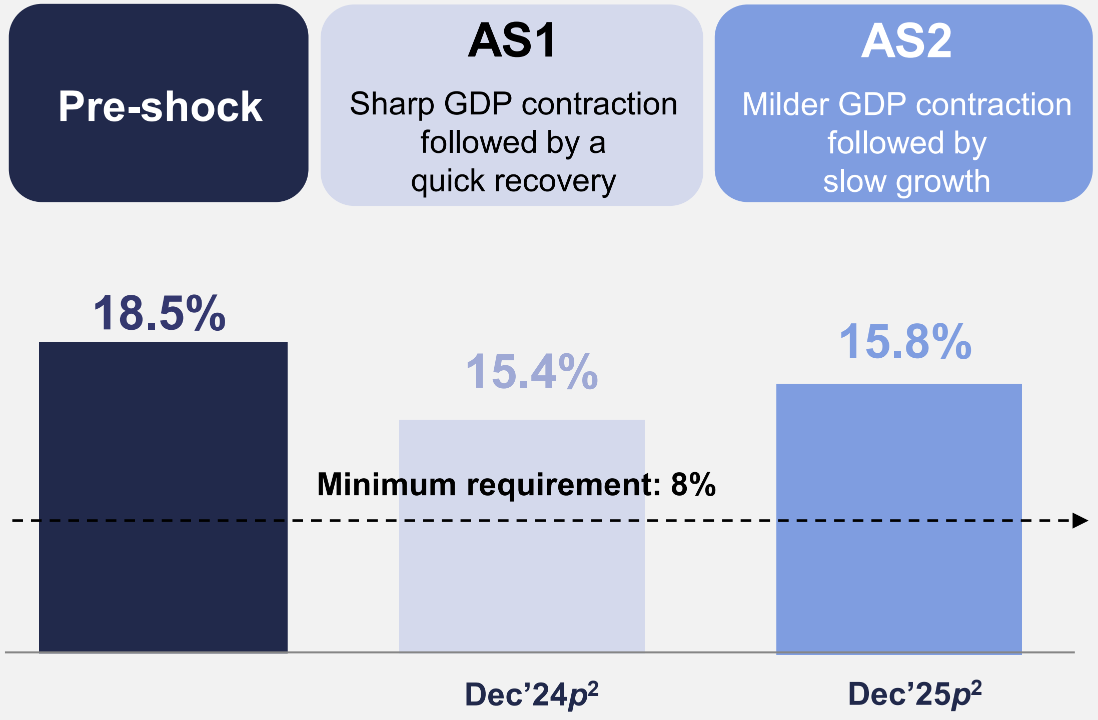
Banks maintained strong capital and liquidity buffers

Banking System: Key Indicators

	June 2023	December 2023
Total Capital Ratio	18.8%	18.5%
Liquidity Coverage Ratio	155%	161%
Net Stable Funding Ratio	117%	118%

The Bank's stress tests[1] affirm banks' ability to support the real economy

Banking System: Total Capital Ratio under Macro Stress Tests



p Projected

1/ The scenarios are more severe than the 2008 Global Financial Crisis as well as the 2020 pandemic. They have been developed specifically for stress testing purposes and do not represent the Bank's actual expectations for economic trajectory. As such, these scenarios are unlikely to materialise.

2/ The year with the lowest level of total capital ratio across the 3-year stress test horizon.

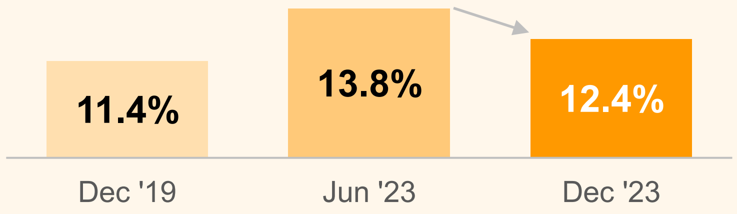
Source: Bank Negara Malaysia

Businesses and households' repayment capacity is preserved, supported by resilient domestic demand and improving labour market

Share of Stage 2 loans[1] for businesses declined despite the challenging environment…

Businesses

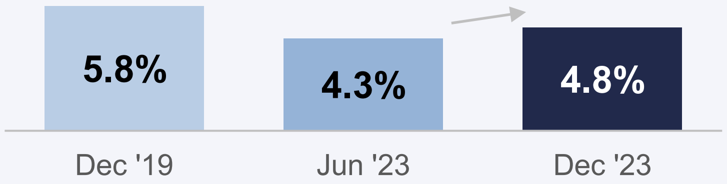
Share of Stage 2 Loans to Total Business Loans



…but was slightly higher for households, driven by borrowers in the more vulnerable segment[2]

Households

Share of Stage 2 Loans to Total Household Loans



Repayment capacity continues to be supported by:

- Improvements in firms' revenue growth
- Large liquid buffers maintained by firms
- Favourable labour market conditions, with government support measures for vulnerable households
- Healthy growth in household financial assets
- Sound lending standards
- Availability of loan repayment assistance for viable borrowers

1/ Stage 2 loans refer to exposures that have exhibited deterioration in credit risk, for which banks are required to set aside provisions based on lifetime expected credit losses under Malaysian Financial Reporting Standard 9.
2/ These include (i) lower-income borrowers, (ii) borrowers who were previously under repayment assistance programmes, and (iii) borrowers whose income levels have yet to fully recover since the pandemic.
Source: Bank Negara Malaysia

Financial capability and inclusion are crucial for improving financial well-being, particularly for the vulnerable population

Strengthening measurement and evaluation are important to drive impactful outcomes

1 Financial Inclusion Framework's KPIs

*Evaluate financial inclusion progress based on headline indicators and targets[1] tied to **4 desired outcomes***

- **Access to affordable and suitable financial products and services**
- **Responsible usage of financial products and services**
- **Financial innovation that delivers value for all**
- **Financially-capable consumers with good financial health**

2 Financial Education Network's Annual KPIs

*Established **baseline KPI** on four focus areas*

SOLUTIONS	ACCESS	AWARENESS	APPLICATION

3 Financial Education Measurement and Evaluation (FEME) Framework

*Measure and evaluate the impact of FE initiatives on **knowledge, behaviour and attitude***

- **Efficient Resource Allocation**
- **Programme Improvement**
- **Ensure Accountability and Transparency**

1/ Headline indicators and targets for the Financial Inclusion Framework to be published in 2024

Financial sector accelerating support for businesses to transition

Available Financing Facilities and Tools

ESG Financing Allocation
(up to 2027)

> RM110 bil

BNM Survey 2022

> RM240 bil[1]

BNM Survey 2023

JC3 ESG Jumpstart portal
Resources and tools to transition for SMEs

Greening Value Chain
Technical training and tools to measure and report GHG[2] by SMEs

Standardised due diligence
Standardised questionnaire to ease financing applications

Climate Data Catalogue
Listing of 249 granular data items, 14 data groups

[1] Pledges by banks at the JC3 Journey to Zero Conference in October 2023
[2] Greenhouse gases
Source: Bank Negara Malaysia

Islamic finance continues to contribute to the Malaysian economy through value-based finance

Desired Outcomes of Value-Based Finance

Impact-focused solutions
that deliver finance for all

Sound financial conduct
underpinned by universal Shariah values

Triple bottom line impact
to the economy, environment and communities, while generating sustainable returns

Initiatives pursued will require enduring industry commitment

More SDG-aligned financial innovation
- *Blended finance for climate action and social empowerment*
- *Wealth circulation through social re-investment and mutual assistance*

Embedding fair treatment and *Ihsan* in financial practices
- *Educating financial consumers and engaging vulnerable communities*
- *Improving stakeholder satisfaction*

Measuring beyond profit
- *Improving quality of impact-based disclosures*
- *Aligning corporate value intent and stakeholder expectations*

Value-based Intermediation (VBI) progress to-date

16 VBI Community of Practitioners

RM433.8 billion intermediated by Islamic banks in VBI-aligned initiatives[1]

RM16.5 billion disbursed to net zero and green financing[2]

Source:
AIBIM (2022) Value-based Intermediation Report: Emerging to Engaging
[1] Data from 2017 – 2022
[2] Data as of 2022

For more details, please refer to the AR 2023 box article 'Realising the Value-based Intermediation (VBI) Vision: Five Years After Introduction'.

Sustained 'whole-of-nation' approach required to preserve confidence in digital payments

Enhancement on prevention and awareness initiatives to strengthen defence against fraud

Prevention

- Strengthened fraud prevention measures, including for non-bank e-money issuers

Awareness | Customer protection

- Intensified scam education programmes by financial industry and agencies
- Fairer treatment of fraud victims, with more robust, transparent and timely investigation process

Enforcement to benefit from efficiency gains upon launch of National Fraud Portal

Enforcement | Recovery

National Fraud Portal (NFP)

A joint effort between NSRC[1] and financial industry with PayNet

Expected outcomes

1. ***Expedited fraud report handling*** *to increase likelihood of freezing stolen money*
2. ***Automated fund tracing capabilities*** *to facilitate faster industry response time*
3. ***Efficient mule identification process*** *supported by credible dataset*

1/ The National Scam Response Centre (NSRC) is a joint effort between the National Anti-Financial Crime Centre (NFCC), PDRM, BNM, MCMC, as well as financial institutions and the telecommunications industry

Structural reforms are crucial to ensure stronger and more sustainable economic growth

Steady growth and stabilising global cost conditions provide a window of opportunity to implement key reforms

Implementation of master plans	✓ *New Industrial Master Plan 2030* ✓ *National Energy Transition Roadmap* ✓ *New Investment Policy – National Investment Aspirations*
Labour market reforms	✓ *Enhance collaboration between Government, academia & industry* ✓ *Implement Multi-tier Levy Mechanism[1] for foreign worker* ✓ *Promote lifelong learning*
Strengthen social protection	✓ *Minimising inclusion and exclusion errors* ✓ *Consolidation of overlapping cash assistance programmes* ✓ *Interlinkages of social protection pillars via conditionalities*
Commitment to fiscal reforms	✓ *Adhering to the Public Finance and Fiscal Responsibility Act (FRA) and the Medium-Term Fiscal Framework (MTFF)* ✓ *Redirect savings from subsidy rationalisation towards productive spending*

1/ Multi-tier Levy Mechanism aims to reduce dependency on low skilled foreign workers by imposing higher levy rates for employers with a larger foreign workforce

Bank Negara Malaysia: Financial position remained sound in 2023

Total Assets

RM631.26 bil

2022: RM619.04 bil

International Reserves

RM520.86 bil
USD113.48 bil

2022: *RM503.33 bil* / *USD114.65 bil*

Net Profit

RM7.16 bil

2022: RM6.99 bil

Dividend to Government

RM2.85 bil

2022: RM2.75 bil

Source: Bank Negara Malaysia

16 box articles across AR, EMR and FSR publications cover various themes and issues

Economy & Monetary Policy

Navigating Economic Cycles: Interactions Between Monetary and Fiscal Policy

Navigating economic cycles requires a balanced and coherent approach to monetary and fiscal policy

Underlying Inflation at its Core

Underlying inflation aims to capture the medium-term path of the general price level, which is an important signal for monetary policy

Sustainability

Supporting SMEs in their Green Transition Journey

The financial sector has introduced various initiatives to help SMEs build their technical capability and improve access to financing

Islamic Finance

Realising the Value-based Intermediation (VBI) Vision: Five Years After Introduction

Adoption of VBI requires enduring industry commitment to accelerate its impact on the economy, community and environment

… and many more

Learn more at bnm.gov.my/publications/ar2023

Summary

The Malaysian economy to expand by 4% to 5% in 2024 supported by resilient domestic demand and recovery in exports

Headline and core inflation to average 2.0%-3.5% and 2.0%-3.0%, respectively

The growth outlook remains subject to downside risks, emanating from both global and domestic factors

Capital and liquidity positions of banks remain strong to support economic activities

Implementation of key structural reforms is critical to ensure stronger and more sustainable growth going forward

SAVE THE DATE

12 - 13 JUNE 2024

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SASANA SYMPOSIUM 2024


SAVE the DATE
GLOBAL FORUM ON ISLAMIC ECONOMICS AND FINANCE (GFIEF)
28-29 MAY 2024
"Shaping A Resilient Global Islamic Economy Through Values-Based Reforms"


Did You Know
Using fit banknotes or e-Duit for your duit raya can save energy that can power up 2,393 homes per year!
e-Duit!
PAYMENT

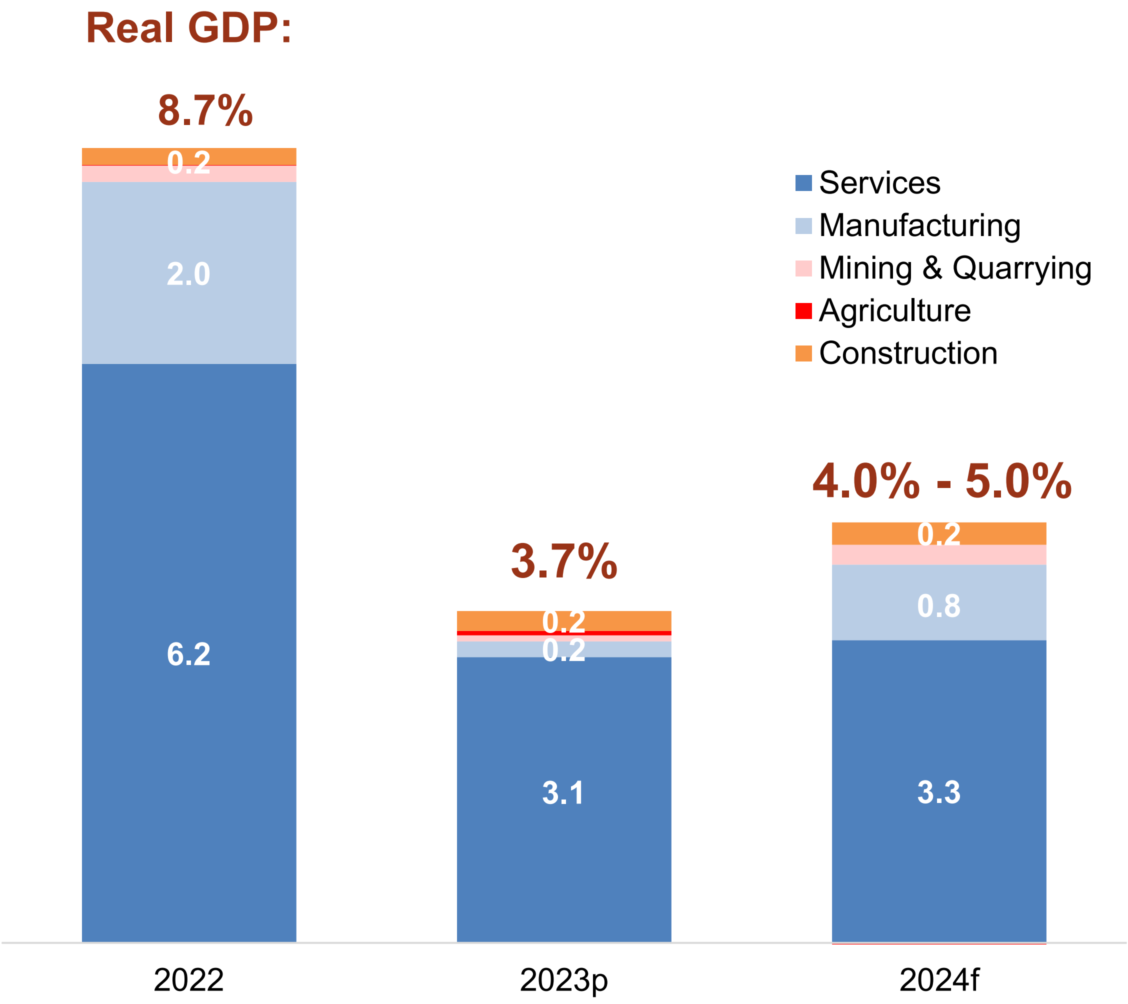
Additional Information

2024f: Higher growth across most economic sectors

GDP Growth by Economic Activity (Annual Change, %)	**% Share** (2023p)	**2022**	**2023p**	**2024f**
Real GDP	*100.0*[1]	**8.7**	**3.7**	**4.0 - 5.0**
Services	*59.2*	**10.9**	**5.3**	**5.5**
Manufacturing	*23.4*	**8.1**	**0.7**	**3.5**
Agriculture	*6.4*	**0.1**	**0.7**	**-0.5**
Mining & Quarrying	*6.2*	**2.6**	**1.0**	**3.5**
Construction	*3.6*	**5.0**	**6.1**	**6.7**

1/ Figures may not necessarily add up due to rounding and exclusion of import duties component
Note: p Preliminary, f Forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Malaysia GDP Growth by Economic Activity
Annual Change (%), Ppt. Contribution

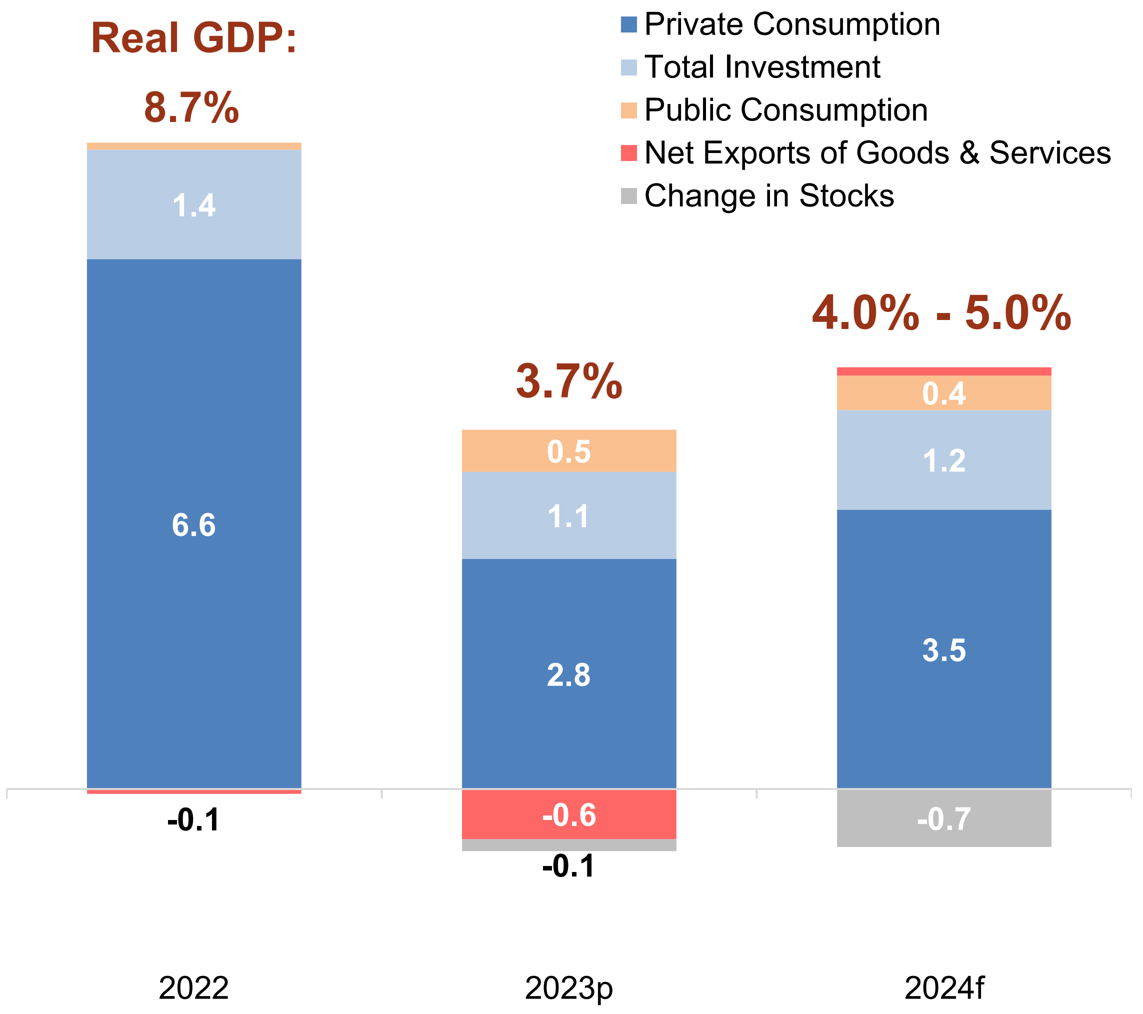


2024f: Improvement across most demand components

GDP Growth by Expenditure Components (Annual Change, %)	% Share (2023p)	2022	2023p	2024f
Real GDP	*100.0*	**8.7**	**3.7**	**4.0 – 5.0**
Domestic Demand[1]	*94.1*	**9.2**	**4.8**	**5.4**
Private Consumption	*60.8*	11.2	4.7	5.7
Private Investment	*15.5*	7.2	4.6	6.1
Public Consumption	*13.3*	4.5	3.9	3.2
Public Investment	*4.6*	5.3	8.6	6.2
Net Exports of Goods and Services	*4.7*	**-1.0**	**-11.3**	**2.1**
Exports	*66.3*	14.5	-7.9	4.0
Imports	*61.6*	15.9	-7.6	4.1

Note: p Preliminary, f Forecast
1/ Excluding stocks
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Malaysia GDP Growth by Expenditure Components
Annual Change (%), Ppt. Contribution

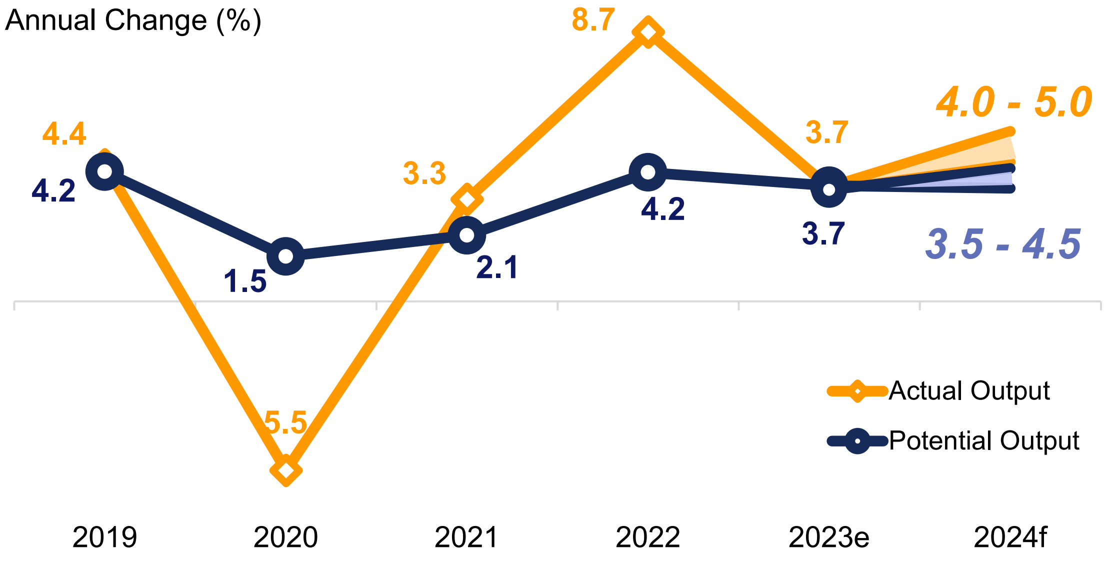


Output gap is expected to turn positive in 2024

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

Actual Output and Potential Output Growth

Annual Change (%)



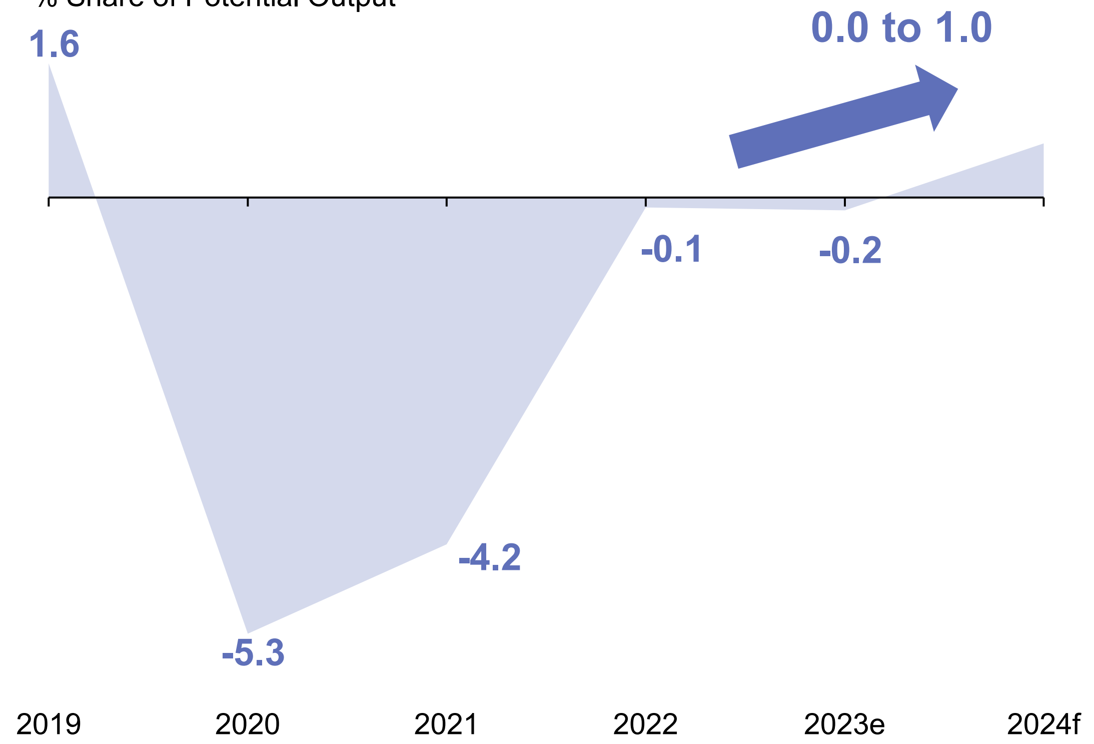
Factors of Production

Labour Force Expansion …… Capital Accumulation ……… Productivity Improvement

Larger expansion of actual output relative to potential output would result in a positive output gap in 2024

Output Gap

% Share of Potential Output



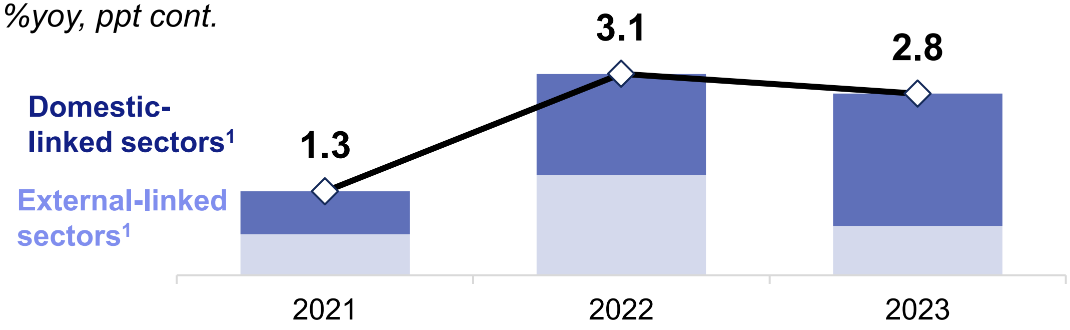
Note: e Estimate, f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

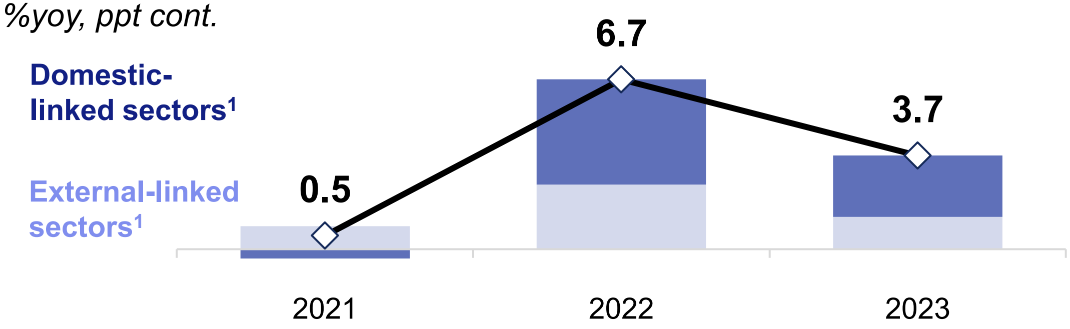
Income growth to improve despite more moderate expansion in employment

2023: Employment growth remained strong despite weak external demand, while income growth moderated

Employment Growth by Economic Sector
%yoy, ppt cont.

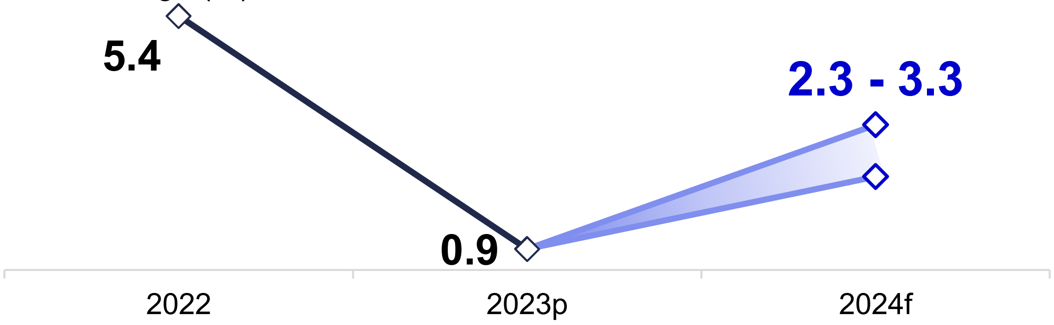


Private Sector Wages by Economic Sector
%yoy, ppt cont.



2024: Firms to sustain hiring while focusing on improving productivity, which would also support higher income growth

Productivity per worker
Annual change (%)



Insights from BNM's industrial engagements

- Most firms intend to sustain their current headcount, as their workforce are at an optimal level
- Firms cited automation efforts to improve efficiency and gradually reduce their reliance on low-skilled workers.

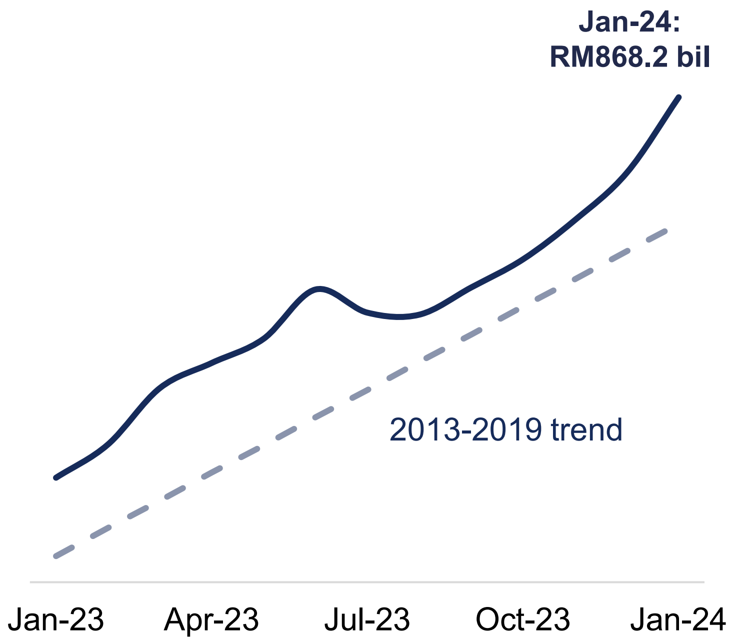
1/ External-linked sectors refers to the mining sector, export-oriented manufacturing subsectors, and wholesale trade and transport & storage services subsectors. Other sectors are classified as domestic-linked sectors. Classification of external-linked employment includes retail trade due to data limitations. Private sector wages only includes wages from services and manufacturing sector.

Source: Department of Statistics, Malaysia, BNM Regional Economic Surveillance, Bank Negara Malaysia estimates

Sustained financial buffers, improving consumer confidence and Government policy measures to support household spending

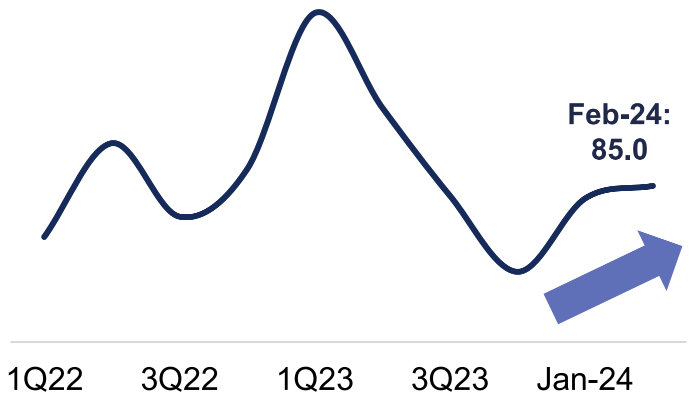
Sustained household savings to support spending

Saving, demand and fixed deposits of individuals
RM bil



Improving consumer sentiments amid better economic outlook

BNM Consumer Sentiment Survey
Index



Drivers of Improving Sentiments

- Improving labour market conditions
- Better current and expected finances

2024: Policy measures to partly cushion cost of living pressures

Sumbangan Tunai Rahmah

RM10bil

2023: RM8bil

✓ *Benefits almost 9 million recipients*

Early incentive payments to civil servants

RM3.9bil

2023: RM1.3bil (Aidilfitri Special Assistance)

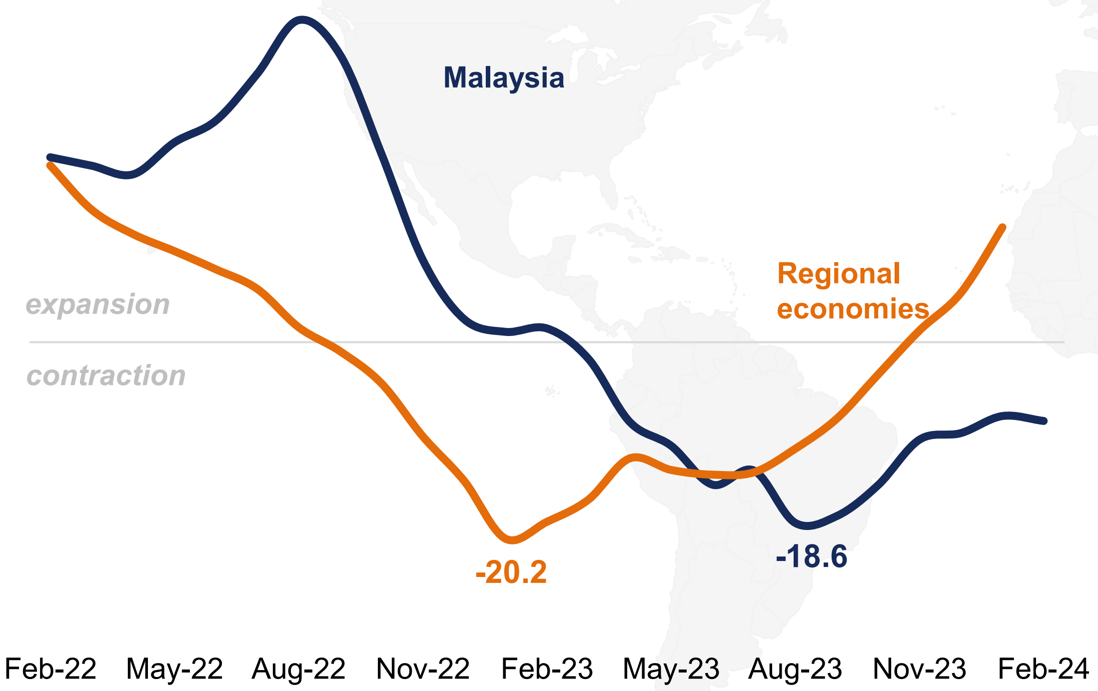
✓ *RM2,000 to all civil servants' grade 56*[1]
✓ *RM1,000 to government retirees*

1/ Including police, firefighters, soldiers, armed forces, all uniformed personnel and contract appointees.
Source: Bank Negara Malaysia, Bank Negara Malaysia Monthly Consumer Sentiment Survey and Estimates, Ministry of Finance

Recovery in Malaysia's export performance in 2024

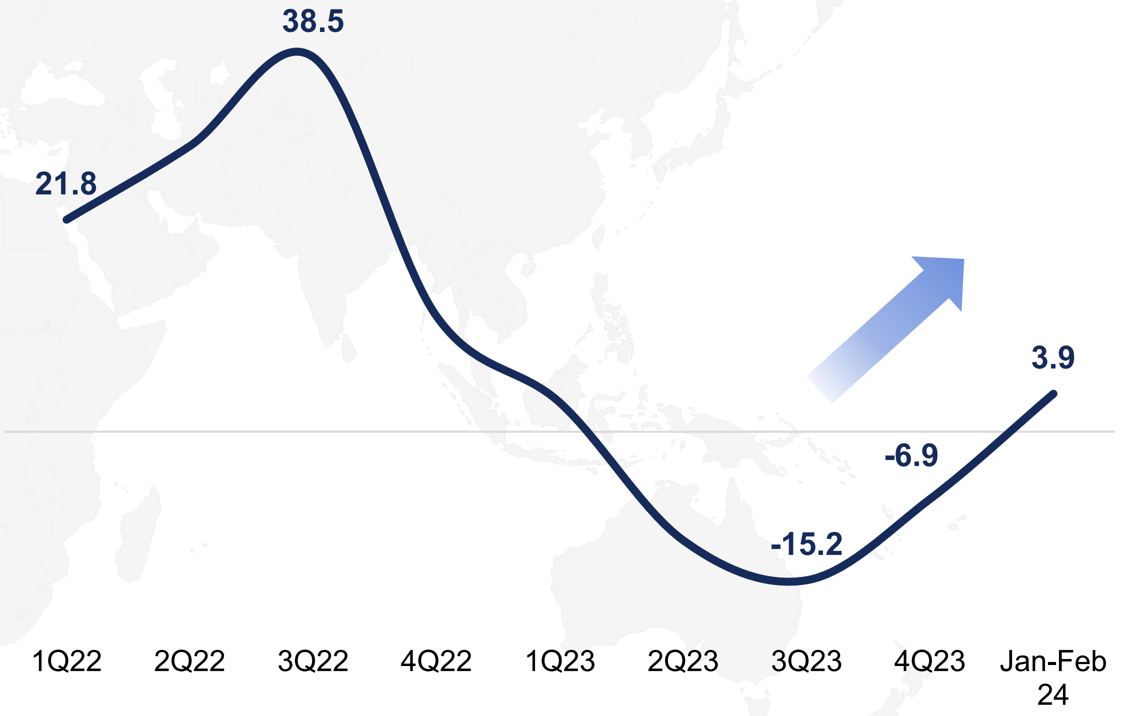
Malaysia's exports contracted later compared to regional countries

Gross Export Growth for Malaysia and Selected Regional Economies* (USD)
Annual change of 3 months moving average (3mma) %



Exports have been improving since 4Q 2023 and is turning positive this year

Malaysia's Gross Export Growth
Annual change, %



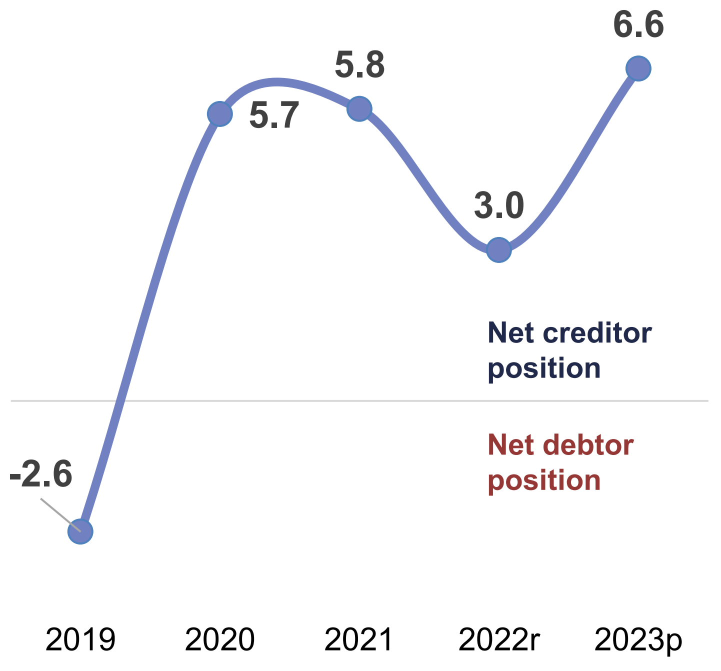
*Refers to sum of exports of selected regional economies, which are Singapore, Korea, Hong Kong and Chinese Taipei

Source: Department of Statistics Malaysia and national authorities

Adequate buffers to weather external shocks

Malaysia remained in a net creditor position

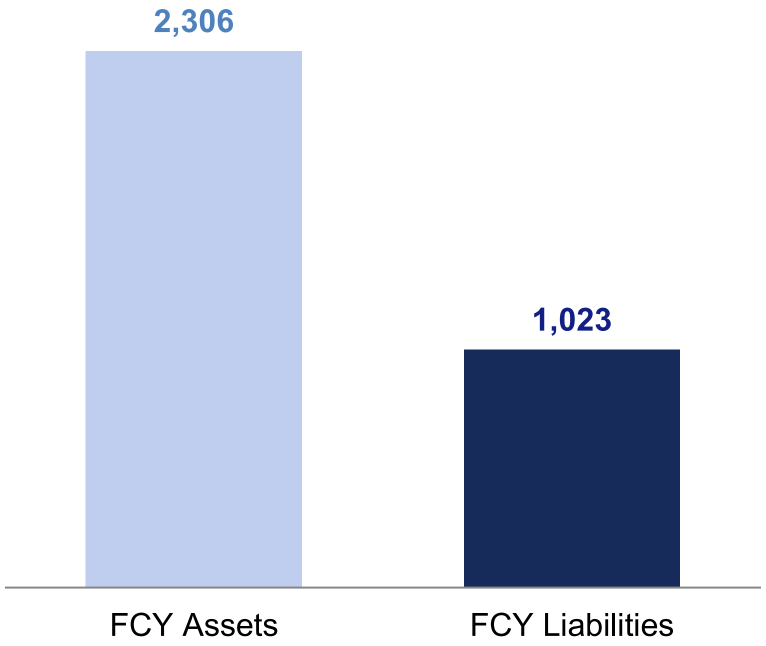
Net International Investment Position
Share of GDP (%)



Note: p Preliminary, r Revised
Source: Department of Statistics Malaysia and National Authorities

Large FCY assets to compensate for potential claims on liabilities

FCY-Denominated External Assets & Liabilities (End-2023)
RM bil



Further support from foreign income and international reserves

Sustained foreign income

Continued current account surplus reduces external financing requirements

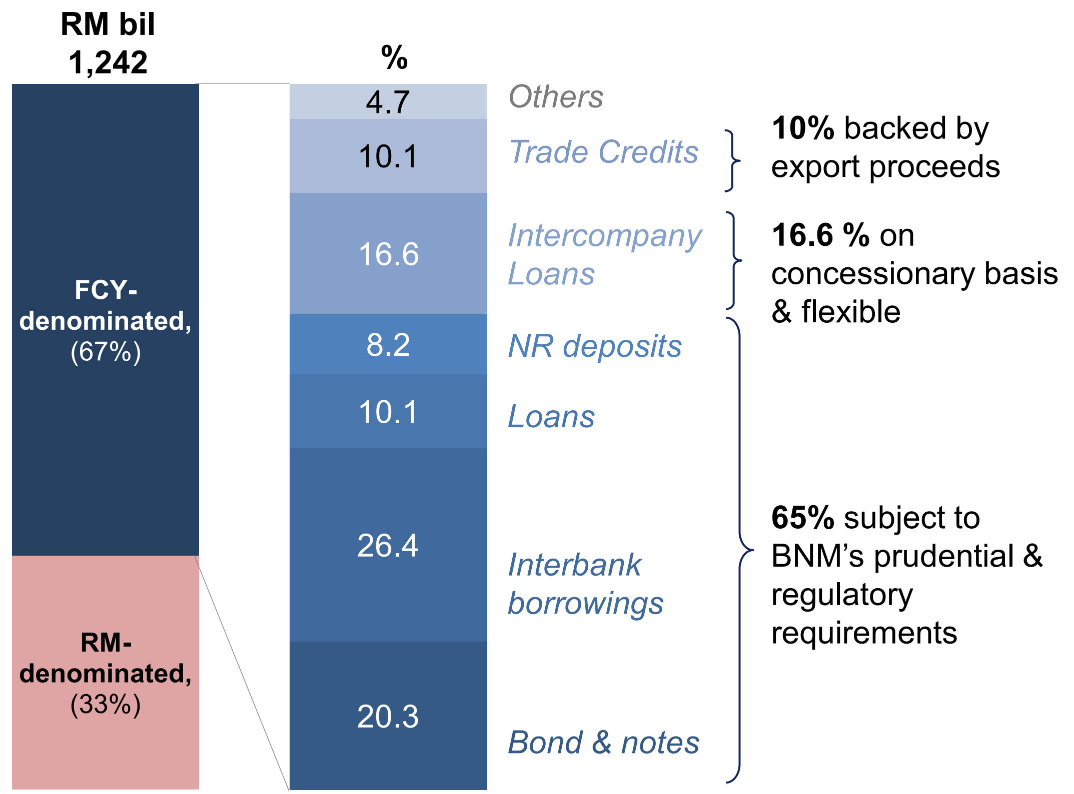
Sufficient international reserves to facilitate international transactions

… to finance 5.4 months of imports of goods & services and is 1.0 times of total short-term external debt as at 29 February 2024

Malaysia's external debt remains manageable

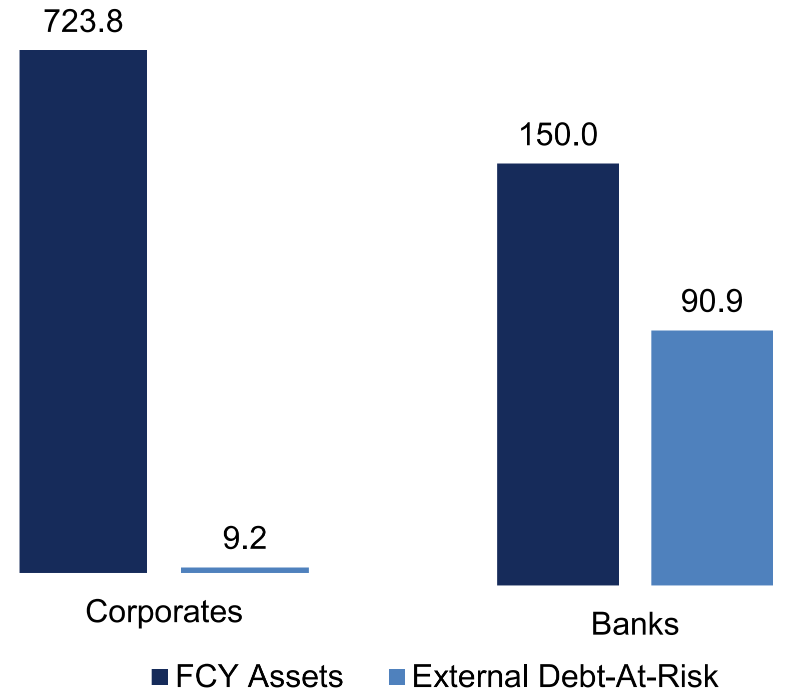
Risks arising from external debt are well-managed given favourable profile

Breakdown of Malaysia's External Debt (End-2023)



Banks and corporates are resilient to face potential external shocks

Banks' and Corporates' FCY Liquid External Assets* and FCY External Debt-at-Risk (EDAR) (RM bil)**



Source: Bank Negara Malaysia

* Banks' liquid external assets consists of deposit & interbank placements, bonds and notes, and money market instruments. For corporates, it consists of portfolio investments and intragroup deposits

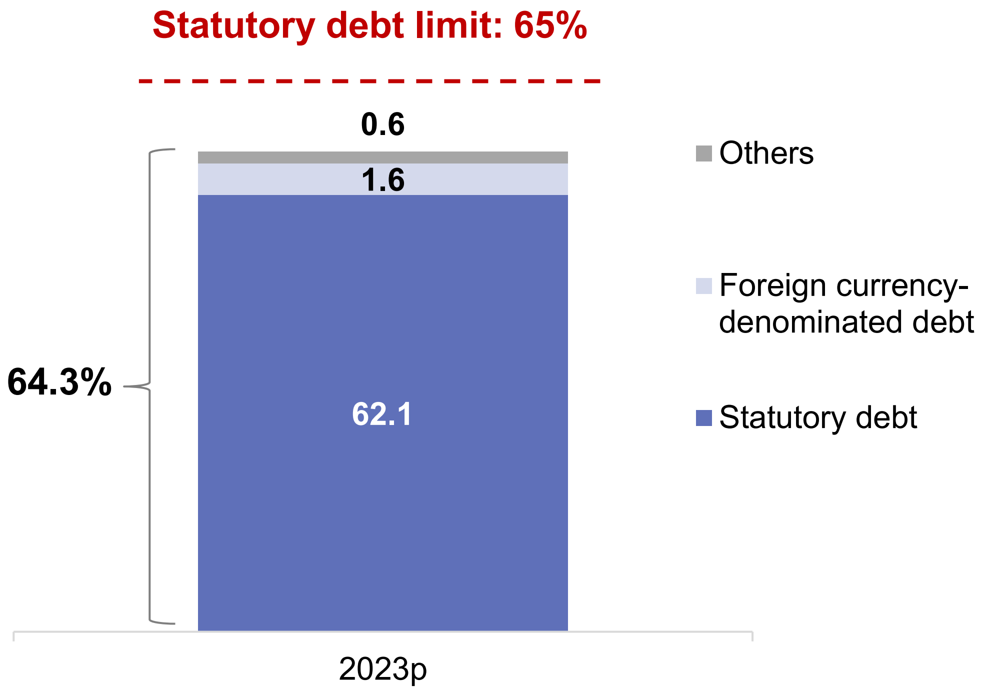
** Banks' EDAR consist of short-term financial institutions' deposits, interbank borrowings and loans from unrelated counterparties. For corporates, it refers to offshore loans raised and bonds issued by high-risk corporate borrowers

Federal Government debt remains sustainable

As at end 2023, the Federal Government debt remains below the statutory debt limit

Federal Government debt

Share of GDP (%)



Source: Ministry of Finance, Malaysia
p Preliminary
Note: Statutory debt refers to the sum of outstanding Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Malaysian Islamic Treasury Bills (MITB). Foreign currency-denominated debt refers to debt borrowed in foreign currency comprising of market and project loans. Meanwhile, others refer to the sum of outstanding Malaysian Treasury Bills (MTB) and Housing Loan Fund debt (*Sukuk Perumahan Kerajaan*, SPK)

Risks to the debt sustainability remains limited supported by several key factors

Supporting factors:

Low share of foreign currency-denominated debt

Remains low at 1.6% of GDP and 2.6% of total Federal Government debt

Medium-Term Fiscal Framework (MTFF)

Continued commitment to fiscal consolidation with an average medium-term fiscal balance target of -3.5% of GDP from 2024-26

Fiscal reforms

Supported by fiscal reforms such as the implementation of targeted subsidies and revenue enhancements via Medium-Term Revenue Strategy (MTRS)

Malaysia's gross international reserves is adequate as measured against a broad range of indicators

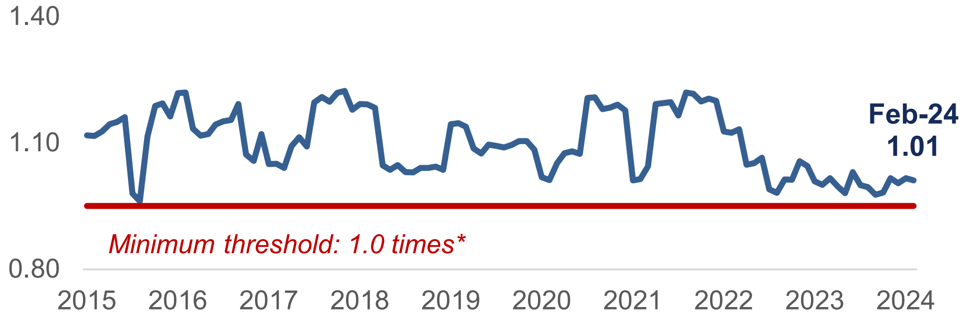
The level of reserves has increased over time…

Malaysia's gross international reserves
USD bil

Source: Bank Negara Malaysia, International Monetary Fund (IMF)

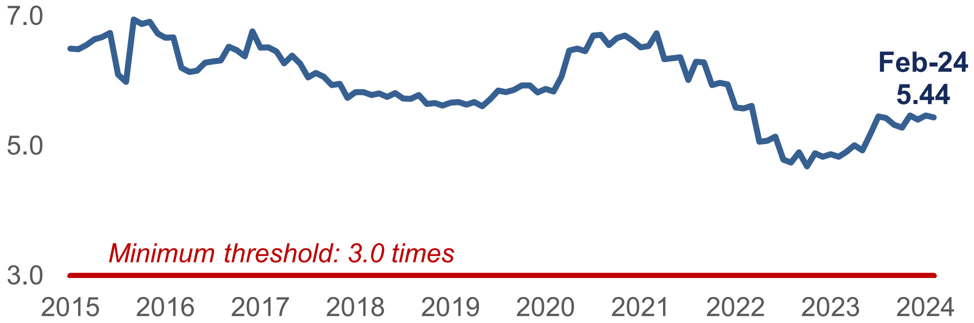
…and remain sufficient against several measures

1 Reserves coverage of short-term external debt
Times



* Rounded to one decimal point

2 Reserves coverage of imports
Times



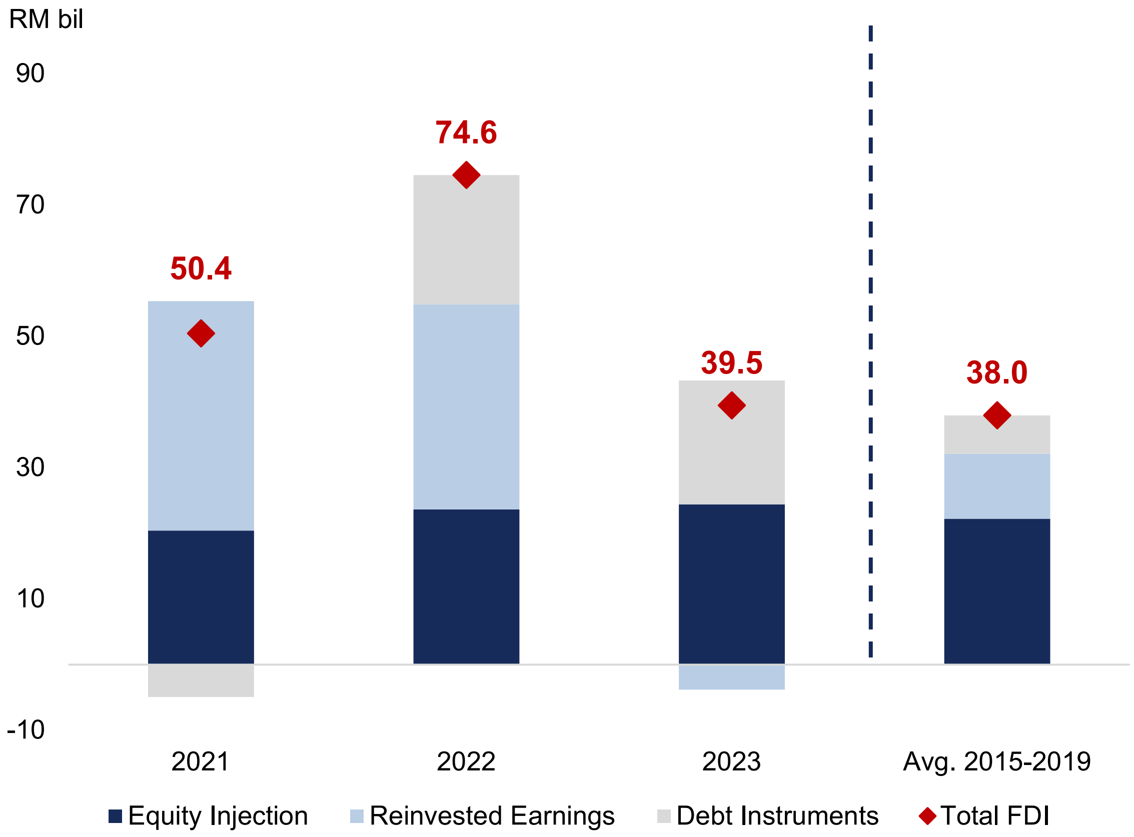
3 IMF ARA metric (2023): 113% (adequacy threshold: 100-150%)

Note: The reserve adequacy as a % of the ARA metric is based on latest estimates by the IMF as at October 2023

FDI inflows remained encouraging despite a challenging external environment, benefitting mainly the services sector

Foreign investors continued to inject equity and loans for investment in Malaysia

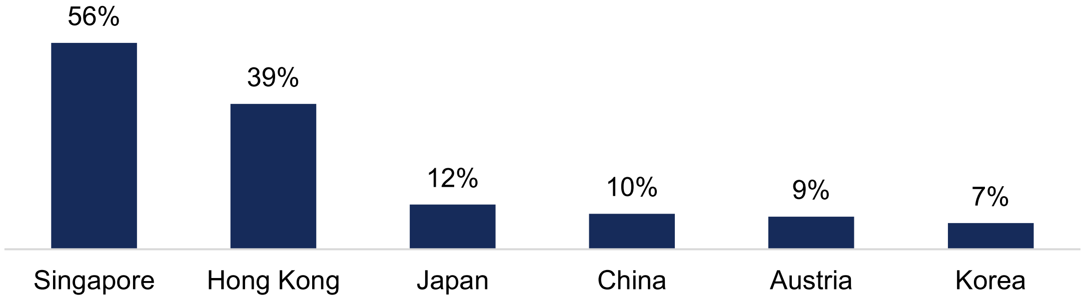
Net FDI by Type of Instruments



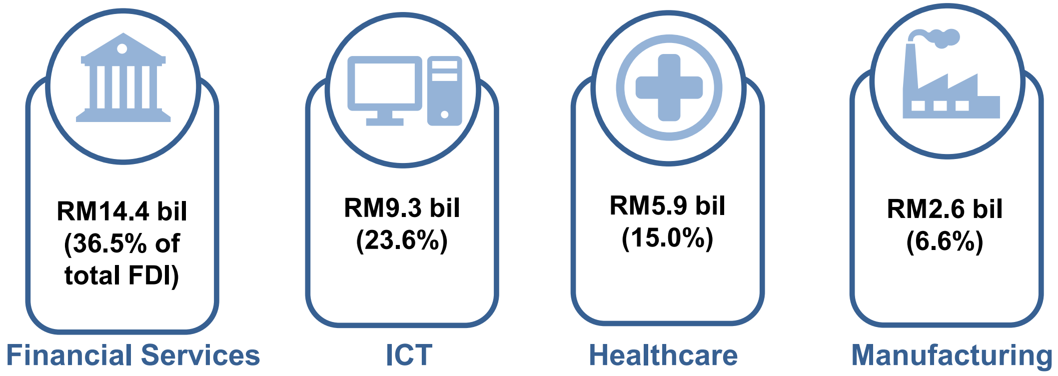
Source: Department of Statistics Malaysia, Bank Negara Malaysia

In 2023, FDI inflows to Malaysia originated mainly from regional investors

FDI Inflows by Source Countries* (% of total net FDI in 2023)



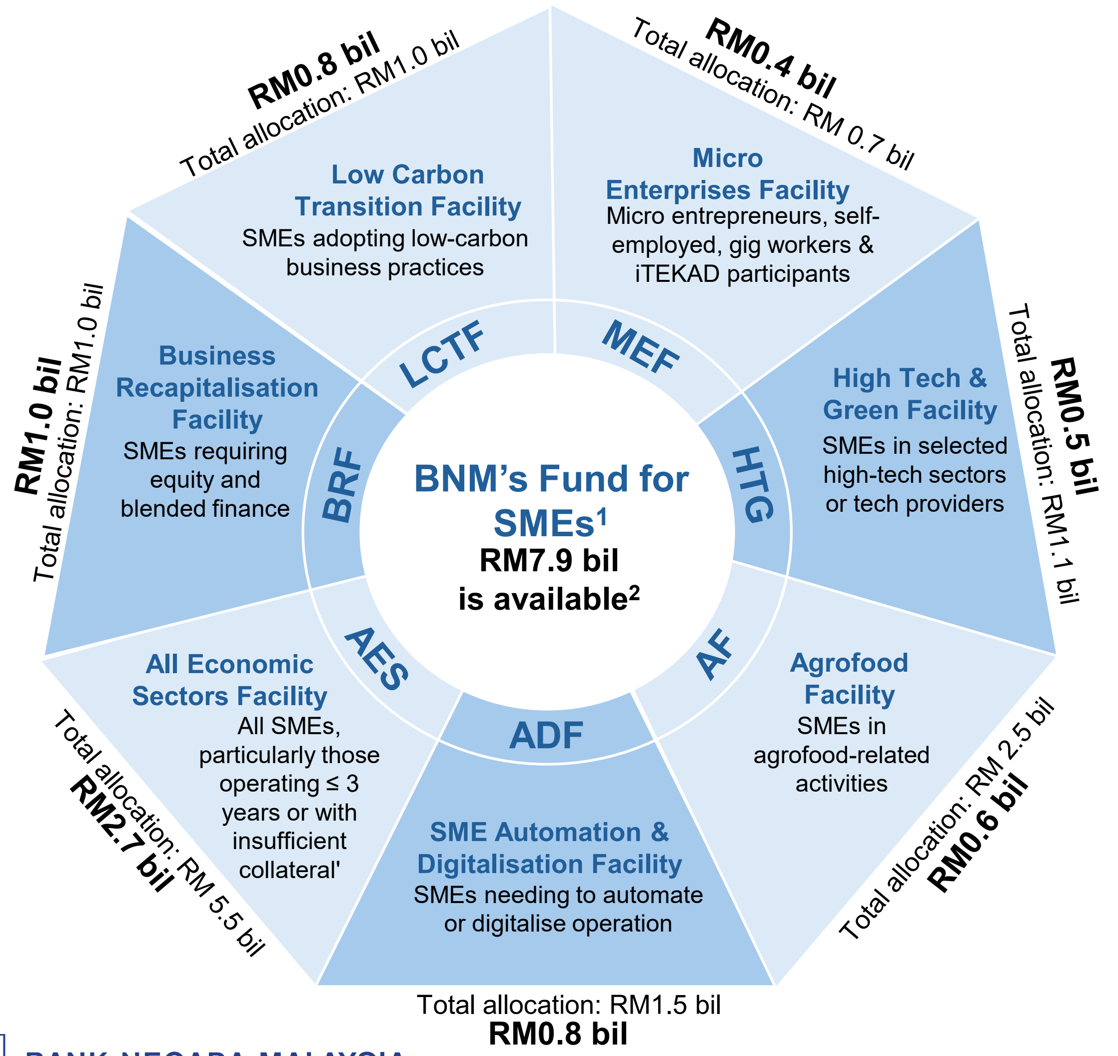
Financial services and ICT were the main beneficiaries of these investments



* Numbers may not add up to 100% as there was also outflows of FDI during the year

Encouraging take up on BNM's Fund for SME facilities

Selected facilities under BNM's Fund for SMEs: Targeted segments and available balances



Selected facilities under BNM's Fund for SMEs: Approval Rates and Utilisation Rate

Facility	Approvals in 2023	Cumulative Approvals	Cumulative Approval Rate (%)	Cumulative Utilisation Rate (%)
AES	RM1.1 bil	RM2.8 bil	85.0	51.6
ADF	RM0.3 bil	RM1.0 bil	86.7	45.2
AF	RM0.8 bil	RM2.6 bil	93.1	76.2
MEF	RM0.1 bil	RM0.4 bil	92.1	41.6
HTG	RM0.5 bil	RM0.7 bil	88.3	57.4
LCTF	RM0.5 bil	RM0.5 bil	89.9	22.0
BRF	-	-	-	-

Additional Information: In view of the VMY 2026, the Govt. has allocated RM350 mil in Budget 2024 for the tourism sector. To support this initiative, more than RM400 mil of PENJANA Tourism Financing (PTF) under BNM's Fund remained available for utilisation (as of December 2023).

[1] Other active facilities under BNM's Fund for SMEs are intended for relief purposes:
i) Disaster Relief Facility (DRF) to assist MSMEs affected by floods (Allocation: RM500 million)
ii) PTF to support SMEs in tourism sector (Allocation: RM600 million)

[2] Total balance as at end-December 2023, including for the relief facilities (see footnote 1 above)

Comprehensive and strategic labour market reforms are critical to build a resilient workforce and secure sustainable growth

Key megatrends will present challenges and opportunities…

- Technological Advancement
- Reconfiguration of supply chains
- Green transition
- Ageing population

..necessitating an urgent and comprehensive reform of the labour market

1 Address skills mismatch
- *Government, academia & industry collaboration to enhance education and training*

2 Upskill the workforce for the future
- *Promote lifelong learning for an agile workforce*

3 Create high-skilled jobs
- *Encourage widespread technological adoption and high-quality investment*

4 Design foreign worker policies in line with development needs
- *Reduce low-skilled foreign workers as well as attract and retain strategic high-skilled talent*

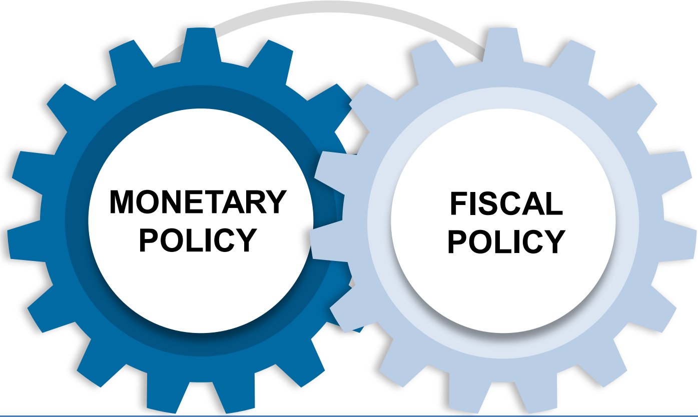
5 Fair compensation and social protection for workers
- *Enhance existing wage policies and improve social protection*

For further details, please refer to the box article "The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities" in Bank Negara Malaysia's Economic and Monetary Review 2023.

Navigating economic cycles requires a balanced and coherent approach to monetary and fiscal policy

Balanced approach to monetary and fiscal policies are critical to ensure optimal macroeconomic outcomes

Counter-cyclical policy tools influencing short-run aggregate demand



Outcomes of balanced approach to policies

Preserve macroeconomic stability

Maximise the effectiveness of each policy

Prevent overburdening of policies

Several measure could be considered to safeguard the efficacy and interaction between monetary and fiscal policy

Reforms to facilitate seamless policy interactions:

Monetary policy: Strengthening surveillance on inflation dynamics and policy transmission as well as deepening understanding of structural shifts in the economy

Fiscal policy: Enhanced assessments on fiscal stance and sustainability[1] using economically sound indicators alongside steadfast commitment to fiscal reforms

Structural reforms: Improving growth potential and resilience against shocks through:
- Transition towards a greener economy
- Ensuring future-readiness of the workforce
- Reforms to the social protection system

1/ Refers to assessments such as debt-stabilising primary balance (DSPB) which targets fiscal deficit level where debt moderates and cyclically-adjusted primary balance (CAPB) which captures the stance of fiscal policy in playing an effective counter-cyclical role

For further details, please refer to the box article "Navigating Economic Cycles: Interactions Between Monetary and Fiscal Policy" in Bank Negara Malaysia's Economic and Monetary Review 2023.

Embracing an ecosystem approach is crucial to further scale up and expand reach of iTEKAD

Programmes by 13 FIs have benefited 6,019 low-income microentrepreneurs

Financial resilience

92%
Saved an average of RM 4,000 of monthly income

Business growth

89%
Increased their monthly sales by the end of participation

Employment

59%
Retained at least 1 employee since joining iTEKAD

34%
Hired at least 1 new employee since joining iTEKAD

Continued expansion of iTEKAD hinges on collective collaboration of FIs and various stakeholders

Funding availability

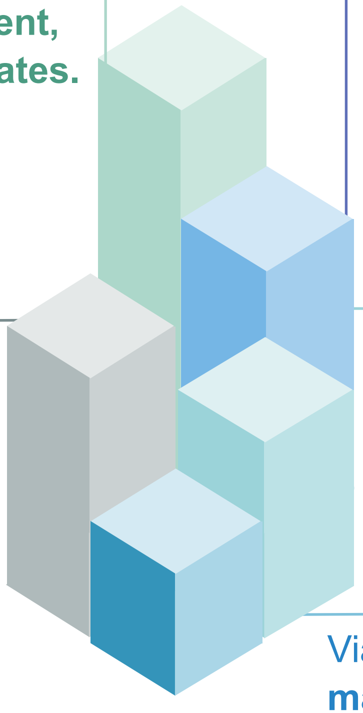
Diversified funding sources such as from **Government, FIs, public and corporates.**

Regulatory support for growth

Steer ecosystem development and facilitate fatwa rulings by **regulators** and **SIRCs*** respectively

Alignment of interest

Alignment of expectations and actions by **stakeholders** towards uplifting the target segment.



Awareness

Accurate articulation of programme for greater participation of **stakeholders and beneficiaries**

Market access

Viable access to **digital and physical marketplaces** to enable long-term impact for various stakeholders

*State Islamic Religious Council (SIRC)
Note: Figures are derived from sample of participants who have completed iTEKAD programmes as at 31 December 2023. 13 participating financial institutions as at February 2024.
Source: Bank Negara Malaysia

For further details, please refer to the box article "iTEKAD: An Ecosystem Approach in Scaling Up Social Finance" in Bank Negara Malaysia's Annual Report 2023.

Supporting SMEs transition to Greener Practices

Climate change can affect asset values and increase cost of doing business of SMEs

SMEs should kickstart their transition journey to capitalise on the benefits of adopting green and sustainable practices

Essential steps to initiating transition journey

1. Understand: Assess and Analyse Operations
2. Plan and Set Clear Goals
3. Engage Employees
4. Implement Changes in Processes and Integrate Technology
5. Monitor and Adjust

Key initiatives by the financial sector to support SMEs

Guidance and Capacity

- JC3 ESG Jumpstart Portal[1]
- Simplified ESG Disclosure Guide (SEDG)

Financial Solutions

Financing Facilities
- Low Carbon Transition Facility (LCTF)
- High Tech & Green Facility (HTG)
- Portfolio Guarantee Scheme by CGC

Blended Financing Programs
- GVC Programme
- Green Agritech

Products & Solutions by Fis
- Technology or working capital financing
- Climate Advisory
- Protection

1/ For further information, please refer to: https://www.jc3malaysia.com/esg-jumpstart-for-smes

For further details, please refer to the box article "Supporting SMEs in Their Green Transition Journey" in Bank Negara Malaysia's Annual Report 2023.

Exchange rate pass-through to inflation in Malaysia has been limited

Change in the RM/USD exchange rate[1] by 5%

Core inflation to increase 0.2 ppt over the year

Note:
1. Source: "Revisiting Exchange Rate Pass-Through to Inflation in Malaysia", Bank Negara Malaysia Economic & Monetary Review 2022.
2. Source: BNM staff estimates based on Department of Statistics Malaysia

Source: Bank Negara Malaysia

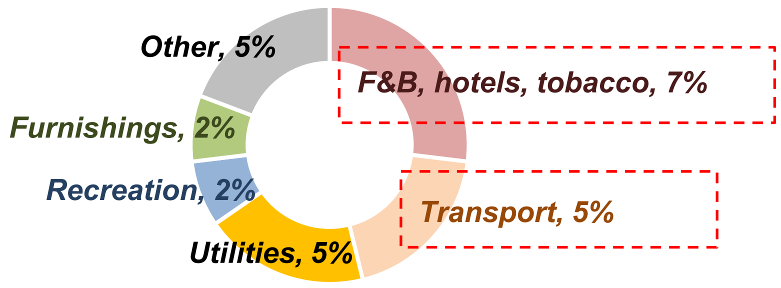
Development: ERPT impact to CPI inflation remained contained in 2023

- **Direct ERPT to imports is evident**, whereby 40% of ER depreciation is translated to overall import prices
- However, **ERPT to CPI inflation was more limited** owing to incomplete pass-through and easing in broader cost environment (PPI inflation in 2023: -1.9%)
- **Share of import content in domestic consumption is modest** at approximately 26% [2]

Risk: Impact could be larger amid prolonged depreciation, particularly for key necessities

- ERPT to consumer inflation tends to be **higher during depreciation episodes**
- Effects are particularly **concentrated for necessities with high import content** such as food and transportation.

Breakdown of import content in private consumption



Latest stress test exercise features two hypothetical adverse but plausible scenarios, over a 3-year horizon

Overarching Scenario Assumptions

- Economic contraction with GDP declining by up to 6.0%
- Elevated unemployment rate of up to 6.0%
- Unprecedented weakening in ringgit against USD
- Increase in bond yields of up to 2 times the rise seen during Asian Financial Crisis
- Sharp decline in the equity market with FBMKLCI losing a third of its value
- OPR hikes amid weak economic growth to account for potential downside risks

Banking Sector Stress Test

Key Features

- One-way MFRS9 staging – no improvements recognized
- No write-offs of impairments
- OPR hikes affect interest expense without upsides on interest income
- Additional deposit outflow shocks for banks that incurred persistent losses or breached regulatory minima *NEW*

Insurance Sector Stress Test

Key Features

- Elevated medical payouts from increasing claims
- Elevated general insurance claims from higher costs and flood events
- Lower premium rates from intense competition
- Hardening of reinsurance market

Source: Bank Negara Malaysia