BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Economic and Monetary Review

2023

EMR

Contents

Foreword

The Malaysian economy continued to show strength and resilience in 2023. Despite the challenging external environment, the economy grew by 3.7%. This was supported by resilient domestic demand, a rebound in tourism and improvement in labour market conditions. We also saw both headline and core inflation gradually moderating and converging towards their long-term averages. The pre-emptive and measured Overnight Policy Rate (OPR) increases in 2022 and 2023 have helped to maintain a good balance between supporting growth whilst managing inflationary pressures.

Looking to 2024, there is room for optimism even as the external environment remains highly uncertain. The Malaysian economy is projected to expand between 4%–5%. This will be supported by the improvement of external demand, with the rebound in global trade, and the technological upcycle being a bright spot for Malaysia given our significant role in the semiconductor supply chain. This will provide positive spillovers to our exports and production. Meanwhile, the tourism sector in Malaysia will benefit from the recovery of global tourism to pre-pandemic levels.

In addition to the more favourable external demand, resilient domestic demand will remain a driving force for growth. Household spending will be underpinned by improving labour market conditions given the ongoing recovery in tourism-related sectors, as well as higher production and trade activities. Sustained financial buffers among households will also support spending, with targeted policy measures assisting vulnerable households. Meanwhile, investment growth will be supported by the continued progress of multi-year projects across the public and private sectors, as well as catalytic initiatives under strategic masterplans such as the New Industrial Master Plan 2030 (NIMP 2030) and the National Energy Transition Roadmap (NETR).

That said, we are mindful of the downside risks that loom ahead of us. As a small and open economy, Malaysia will be affected by developments in the global economy. Prolonged high interest rates, especially in advanced economies, could weigh on global growth. Escalation of geopolitical conflicts could disrupt global trade, dampening Malaysia's exports and production. Despite these challenges, the fundamentals of the Malaysian economy will allow us to weather the storm. Nonetheless, there are also opportunities for Malaysia's growth prospects. These include positive spillovers from the global tech upcycle, stronger tourism activity and faster implementation of existing and new investment projects.

We expect core and headline inflation to remain moderate against the backdrop of stable demand conditions and contained cost pressures. Upside risks include external drivers such as geopolitical tensions and weather disruptions impacting global commodity prices as well as changes in domestic policies related to subsidies and price controls. While the rationalisation of subsidies may have short-term implications on growth and inflation, well-planned and well-executed implementation strategies alongside targeted cash assistance can help mitigate these effects.

On our part, Bank Negara Malaysia's (BNM) monetary policy will continue to be forward-looking with a focus on the trajectory of growth and inflation. Our approach to monetary policy will remain data-driven and ready to respond to the evolving economic landscape. In the context of supply shock scenarios, such as those linked to subsidy rationalisation, it is crucial to differentiate between short-term impacts and potential longer-term effects on inflation and growth. When relative price adjustments are transitory and likely to normalise over a reasonable period of time, it may not require a monetary policy response. On the other hand, there may arise circumstances that necessitate monetary policy action to ensure that the medium-term prospects for price stability and sustainable growth are not jeopardised. This could happen when price increases become noticeably pervasive and persistent. It could also happen when signs emerge of inflation expectations becoming de-anchored, risking a wage-price spiral, or when cash assistance that comes with supply shocks is expected to lead to excessive demand. Persistently higher inflation in these instances will create more uncertainty and further erode purchasing power. This will subsequently affect consumption and investment growth. Ultimately, before formulating any monetary policy response, we will need to carefully assess the effects of subsidy rationalisation on the pervasiveness and persistence of price increases, as well as its implications for growth.

On the foreign exchange market, it must be said that over the longer term, ringgit movements are anchored by the fundamentals of the economy. However, in the short term, factors such as interest rate differentials, geopolitical developments, as well as fluctuations in domestic and global economic activity and sentiments, can lead to the deviation of the ringgit from its fair value. This has been the case recently, where global events weighed heavily on the ringgit. Along with other regional currencies, the ringgit experienced depreciation pressures due mainly to the aggressive monetary policy tightening in advanced economies. This persisted into 2023, driven by the further rise in global interest rates, China's economic slowdown and geopolitical tensions in the Middle East. While most advanced and some regional economies aggressively increased interest rates, we maintained a more gradual increase in the OPR. This was appropriate to our situation given the more moderate price and demand pressures domestically, amid early monetary policy recalibration.

With these factors in mind, we strongly view that the movement of the ringgit in recent times neither reflects Malaysia's economic fundamentals nor positive economic prospects. As the global monetary policy tightening cycle has likely peaked, financial markets expect pressure on the ringgit to abate. However, the road ahead may still be bumpy. On and off, we may see changing and differing market expectations regarding the monetary policy trajectory of advanced economies. This, in turn, will affect the ringgit. That being so, we are mindful that a persistent and material undervaluation of the ringgit, if not addressed, could have permanent implications on the economy.

In light of this, collective actions are vital in safeguarding the value of the ringgit. BNM is committed to playing its part to preserve confidence in the ringgit. To this end, we have collaborated with the Government to increase inflows that would allow the ringgit to appropriately reflect the fundamentals and prospects of the Malaysian economy. Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs) have been encouraged to consistently repatriate foreign investment income and convert it to ringgit. Furthermore, BNM has stepped up engagements with exporters and international investors to further promote conversions and to underscore Malaysia's investment appeal. At the same time, we remain committed to maintaining orderly conditions in domestic financial markets through our liquidity and foreign exchange operations, while continuing to undertake measures to further enhance market efficiency, liquidity and accessibility. We will also continue to provide a favourable environment for global investors to invest in Malaysia. Dynamic hedging flexibilities remain available for investors, allowing them to take positions while protecting their investments.

The private sector should also do its part. By increasing focus on domestic investments, corporate Malaysia can be part of the nation's push towards key transformative growth areas, especially those in high-value and innovation-driven sectors. We also need businesses to invest in and level up on skills and innovation, while being mindful of global trends such as the growing emphasis on sustainability, which is set to impact global production chains, trade and investment, and technologies. If we get this right, as a country we will be able to increase our productivity and strengthen our fundamentals. Then, we will be able to secure more enduring strength in the ringgit as well as a stronger and more competitive Malaysia.

Beyond this, the positive growth trajectory and moderate inflation provides a window of opportunity for Malaysia to accelerate key structural policies to meet the challenges of the future. These include promoting quality investments towards high value-added activities and a decarbonised future, as well as addressing long-standing structural issues such as mismatches in the labour market and social protection gaps. Importantly, we must also sustain the momentum towards longer-term fiscal sustainability. The Government's effort to reallocate fiscal resources from blanket subsidies to targeted assistance for vulnerable households is necessary to improve the efficiency and efficacy of government spending. The resulting savings can be rechannelled towards other effective means of improving public welfare. All these reforms will strengthen our growth potential and competitiveness, further bolstering confidence in Malaysia's economic prospects. The improving prospects and strengthening investor sentiments on our economy will also help reinforce the value of the ringgit and ensure that it appropriately reflects our strong domestic fundamentals.

The financial sector will continue to play a key role to support the Malaysian economy. BNM is committed to ensuring a stable and resilient financial sector, thereby providing strong foundations to sustain future growth. At the same time, we will continue to advance efforts that align the financing environment with the evolving needs of the economy. These include on-going strategic initiatives to advance value-based finance, and to strengthen the financial sector's climate resilience and catalytic role in supporting Malaysia's adaptation to climate change and orderly transition to a greener economy. We will also continue to facilitate on-going efforts to digitalise finance, especially to ensure a safe and well-regulated environment for digital financial services.

As we move forward, the coherence between monetary, financial, fiscal and structural policies will be vital to foster sustainable growth and financial stability. As reforms are rolled out, careful design and sequencing will enable complementarities to be optimised across macroeconomic and structural policies. The successful execution of initiatives will require close cooperation among policymakers to avoid policy missteps, while undertaking effective communication with the public.

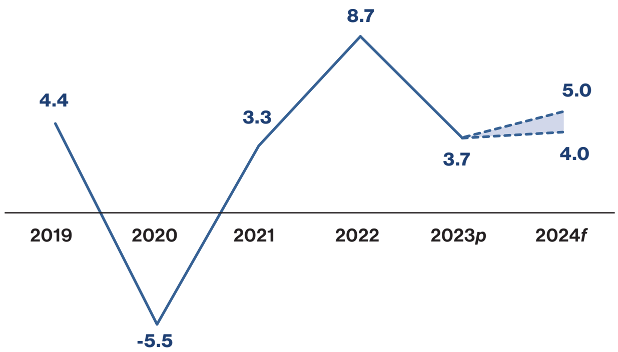
We can be cautiously confident that a good year is ahead of us. But for us to secure our future in the years to come, the time is now for Malaysia to implement vital structural reforms. With decisive and collective action, Malaysia's favourable economic recovery since the COVID-19 pandemic thus far can be firmly established into long-term prosperity. No doubt, there will be transition pains, but these reforms are investments for our future, and for the generations to come.

Abdul Rasheed Ghaffour
20 March 2024

Key Highlights on
Economic Development and Outlook

Malaysia's economy to grow between 4% and 5% in 2024

Real GDP growth (Annual change, %)



p Preliminary
f Forecast

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

Key drivers of growth in 2024 (Annual change, %)

Demand

Private Consumption: **+5.7%** (2023p: 4.7%)

Exports of Goods and Services: **+4.0%** (2023p: -7.9%)

Supply

Services: **+5.5%** (2023p: 5.3%)

Manufacturing: **+3.5%** (2023p: 0.7%)

Growth underpinned by resilient domestic demand and improvement in external demand

Key growth drivers

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
Rebound in global trade amid the tech upcycle

Higher tourist arrivals and spending

Upside risks to growth

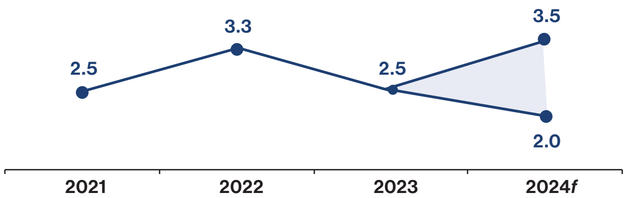
- Greater spillover from the tech upcycle
- More robust tourism activity
- Faster implementation of investment projects

Downside risks to growth

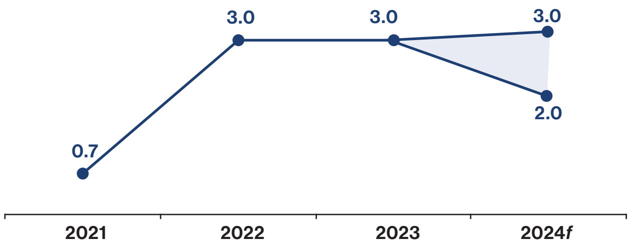
- Weaker-than-expected external demand
- Further escalation of geopolitical conflicts
- Larger decline in commodity production

Headline inflation to average between 2% and 3.5% in 2024

Headline Inflation



Core Inflation



Risks to the inflation outlook

Higher prices after subsidy and price control adjustment

Higher input costs due to exchange rate development

Higher global commodity prices

Softer commodity prices from weaker global growth

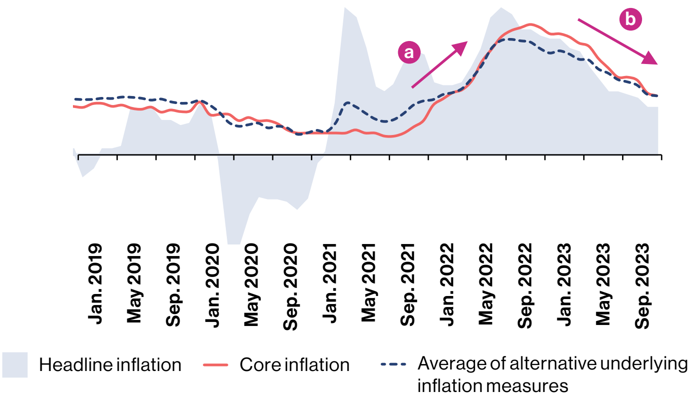
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Key Highlights on
Box Articles

Underlying Inflation at its Core

In 2023, moderation across various underlying inflation measures reflect that disinflation was broad-based

Inflation in 2023 *(Annual change %)*



1 Headline inflation can be **heavily influenced by temporary price fluctuations** affecting a small subset of items

2 This motivates the use of **underlying inflation measures which give a clearer signal** of the general price trend**:**

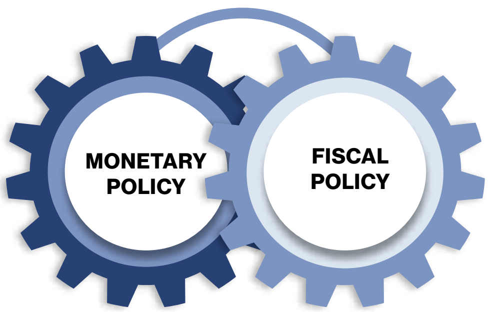
- **a** **Uptrend in underlying inflation** reflects that robust demand and higher costs drove broad price pressure from 2022 to 1H 2023
- **b** **Subsequent moderation** reflects broad based disinflation across CPI items amid stabilising demand and easing costs

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

Navigating Economic Cycles: Interactions Between Monetary and Fiscal Policy

Balanced approach to monetary and fiscal policies ensure optimal macroeconomic outcomes

Counter-cyclical policy tools



Outcomes of balanced approach to policies

1. **Preserves macroeconomic stability**
2. **Maximises the effectiveness of each policy**
3. **Prevents overburdening of policies**

Reforms to facilitate seamless policy interactions:

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

Fiscal policy: Enhancing conduct using economically sound indicators and steadfast commitment to fiscal reforms

Structural reforms: Enhancing growth potential and resilience by future-proofing the workforce, social protection reform, and transitioning to a greener economy

Key Highlights on
Box Articles

The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities

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 high-skilled talents
5. **Fair compensation and social protection for workers**
   Enhance existing wage policies and improve social protection

Executive Summary

Executive Summary

Economic, Monetary and Financial Developments in 2023

In 2023, global growth slowed amid a challenging economic environment: Global economic growth moderated to 3.1% (2022: 3.5%). The main contributors to this moderation were tight monetary policies and elevated inflation. The impact of these factors was partially mitigated by robust wage growth and drawdown from excess savings. China's growth rebounded briefly in early 2023 after it re-opened in the aftermath of the COVID-19 pandemic. The rebound was rather short-lived, as economic activity was dampened by a property market downturn and softer external demand. Meanwhile, advanced economies experienced a rather mixed growth performance. The US benefitted from strong consumer spending amid tight labour markets, while the euro area experienced a slowdown due to high energy prices and weak real income growth. Banking stress in the US and Europe during the early part of the year raised concerns about broader contagion risks, prompting swift responses from central banks and supervisory authorities to contain the impact. Of great significance, global trade growth decelerated to 0.4% (2022: 5.2%) amid weaker demand conditions, global technology downcycle, inventory correction and continued spending rotation from goods to services. Nevertheless, softening demand alongside the reopening of economies allowed supply chain conditions to normalise to pre-pandemic levels, while recovery in global tourism activities partially offset the moderation in goods trade.

Global headline inflation moderated but remained elevated: Global headline inflation was cooled by lower commodity prices and normalisation of supply chain conditions. Increased production from non-Organization of the Petroleum Exporting Countries (OPEC) helped offset upward pressure to oil prices from the Middle East conflicts and OPEC+ production cuts. Despite the moderation in headline inflation, core inflation remained elevated and persistent. This prompted central banks to continue tightening monetary policy, albeit at a slower pace than in 2022. Compared to the advanced economies, inflation in emerging market economies moderated faster, returning to their long-term averages. This was attributed to lower demand pressure and less tight labour markets.

Global financial conditions were highly driven by evolving expectations of policy rate paths of the major economies: Global financial markets experienced considerable volatility across asset classes, as market expectations diverged with policymakers over the pace and degree of monetary policy tightening, especially in the advanced economies. Initial optimism on China's recovery waned. Markets were roiled following the banking sector stress triggered by the collapses of banks in the US and Switzerland. Recession fears ensued, causing a global stock market correction. In addition, differences in economic prospects between advanced and emerging economies led to an unsynchronised global interest rate path. This led to higher bond yields, tightened financial conditions and significant pressures on emerging market currencies. Geopolitical tensions in the Middle East further added uncertainty, but softer US inflation data eased financial conditions following the anticipated future rate cuts by the US.

Domestic financial markets were affected by external headwinds, but spillovers were contained: The Malaysian financial markets experienced shifts in investor sentiment mostly attributable to external factors, leading to volatility primarily through exchange rate fluctuations. Bond market movements generally followed global trends, while non-resident inflows into domestic bonds reflected confidence in Malaysia's sovereign credit quality. On the other hand, the equity market performance was affected by reduced investors' appetite for risky assets amid the global interest rate environment. Nevertheless, improved domestic factors from political stability and key economic plans releases lifted the outlook. The ringgit depreciated against the US dollar and other major trading partners mainly due to the aggressive policy rate hikes by major central banks. However, financial market conditions remained orderly owing to deep financial markets and a sound banking system. This was supported further by the existing prudential requirements on external borrowing as well as liquidity and foreign exchange operations by BNM.

The Malaysian economy continued to expand in 2023 despite external headwinds: The Malaysian economy grew by 3.7% despite facing challenges stemming from weak external demand, disruptions in commodity production and higher cost of living. Growth was mainly supported by resilient domestic demand and recovery in tourism activities. On the external front, exports declined due to subdued global demand, lower commodity prices and shifts towards services spending. Additionally, improving labour market conditions coupled with supportive policy measures helped household spending, especially among the vulnerable households affected by higher cost of living. Private sector capital spending drove overall investment activity, particularly in information technology and electrical and electronics (E&E). In tandem with external trade performance, export-oriented industries saw some moderation in growth. Nonetheless, all sectors continued to expand in 2023.

Headline and core inflation moderated in 2023: Headline inflation moderated in 2023 to an average of 2.5% (2022: 3.3%), largely on account of lower food, non-alcoholic beverages and fuel inflation. Some subsidy rationalisation measures were introduced, namely through the revision of electricity tariffs and removal of price ceilings for chicken. The impact on CPI inflation was rather muted given the relatively smaller weights of these items in the CPI basket. In addition, upward pressure on import prices from the sustained strength of the US dollar against the ringgit was offset by the moderating global cost environment. Existing price controls and subsidies on key expenditure items as well as the relatively stable firms' pricing behaviour also partially mitigated exchange rate pass-through effects. Meanwhile, core inflation averaged at 3% (2022: 3%). The more gradual disinflation pace was partly due to persistent demand pressure, particularly in the first half of 2023. Core inflation steadily converged to its long-term average in the second half. Overall, price pressures were generally less pervasive in 2023. The share of CPI items recording monthly price increases trended lower, approaching their respective long-term average levels.

Monetary policy was further normalised amid resilient domestic growth prospects: The Overnight Policy Rate (OPR) was increased by 25 basis points to 3.00%, marking the complete withdrawal of the monetary stimulus introduced in 2020 aimed at promoting the economic recovery from the pandemic. The Monetary Policy Committee (MPC) paused for the initial two meetings in 2023 to assess prior adjustments' impacts, considering potential over-tightening risks. Subsequently, in May, the MPC increased the OPR by another 25 basis points, noting resilient domestic growth while remaining vigilant on upside risks to inflation from domestic policy changes, financial market developments and global commodity prices. Of note, domestic monetary and financing conditions continued to be supportive to financial intermediation. Following BNM's liquidity operations to reduce the high overnight balances aimed at enhancing price discovery in the interbank market, interbank trading volume increased. Notwithstanding the elevated interbank rates towards end-2023 in anticipation of year-end deposit competition, spillovers to broader credit conditions were limited.

Continued credit flow to the private non-financial sector: Financing activities remained sustained, in tandem with the pace of domestic economic growth. Credit growth to the private non-financial sector increased to 4.8% (2022: 4.7%), driven by higher outstanding loans growth, while outstanding corporate bond recorded a more moderate pace of expansion at 4.2% (2022: 4.6%). Household loans, particularly for home and car purchases, were the key drivers of loan growth. They were supported by steady employment and government incentives such as extended stamp duty exemptions. On the other hand, business loans moderated in the first half of 2023 due to slower non-small and medium enterprises' (SMEs) working capital financing growth, but rebounded thereafter by end-2023 supported by the improvement in business outlook. Despite the weaker loan growth among non-SMEs, funding activities remained broadly sustained amid favourable conditions as reflected by narrowing bond spreads. Overall, credit conditions remained supportive of economic activity. This was underpinned by a stable loan approval rate, continued prudent lending standards and availability of financing support facilities in ensuring continuous credit flow to the economy.

Outlook and Policy in 2024

Sustained global growth amid moderating inflation: In 2024, global growth is expected to be sustained, supported by moderating inflation, resilient labour markets and a rebound in global trade. These factors would cushion the headwinds from continued tight monetary policy and withdrawal of fiscal support. Global trade growth is expected to rebound in 2024, driven by the technology upcycle, tourism recovery and low base effects in 2023. Despite this, ongoing trade restrictions, continued spending rotation from goods to services and supply chain disruptions could weigh on the recovery. Thus, despite the comparatively better performance than in 2023, global trade growth is likely to remain below its long-term average. Global inflation is expected to continue moderating mainly due to disinflation in the advanced economies, providing room for central banks to ease monetary policy. However, uncertainties surrounding the trajectory of global monetary policy easing could contribute to financial market volatility, particularly with diverging views on the timing, magnitude and pace of policy adjustments. Nonetheless, the expected easing of global financial conditions may induce portfolio rebalancing towards emerging market economies, potentially improving capital flows into economies in the region. Global growth outlook remains subject to downside risks, arising from higher-than-expected inflation, tighter financial conditions and geopolitical escalations. Conversely, stronger consumer spending in advanced economies and fiscal support in China pose upside risks to global growth.

The Malaysian economy is projected to grow between 4%–5% in 2024, underpinned by continued expansion in domestic demand and improvement in external demand: Growth will be driven by resilient domestic expenditure, with additional support from the expected recovery in exports. Tourism is expected to improve further, while the implementation of new and ongoing multi-year projects by both the private and public sectors would support investment activity. Nevertheless, domestic growth remains subject to downside risks from both external and domestic factors. External factors include a weaker-than-expected global growth and further escalation of geopolitical conflict. Domestically, more severe shocks on commodity production and the implementation of subsidy rationalisation could also weigh on the growth outlook, although this could be partially offset by targeted cash assistance from the Government. Greater spillover from the tech upcycle, stronger-than-expected tourism activity, and faster implementation of existing and new investment projects would provide upside risks to the domestic growth.

Headline inflation is expected to average between 2% and 3.5% in 2024: Headline inflation is expected to remain moderate amid contained cost pressures from easing global supply conditions. Price pressures from tax changes and utility tariffs are assessed to have a marginal impact on headline inflation. Additionally, the impact of exchange rate depreciation on inflation will be contained by administered prices and relatively stable firm pricing behaviour. Core inflation is also expected to moderate, but remaining above its long-term average. Limited demand pressures, stable near-term sentiments on economic conditions and wage growth that is in line with productivity increases, will likely contain upward pressure to underlying inflation. Inflation outlook remains highly subject to upside risks due to potential price adjustments on food and energy items, as well as external pressures from exchange rate and global commodity price developments. Of note, the inflation forecast range has incorporated some potential upside from the implementation of fuel subsidy rationalisation. The direct impact on headline inflation will likely dissipate within a year, but there are upside risks from knock-on effects and wage-price dynamics. Nevertheless, the short-term impact will depend on the size, timing and scope of targeted assistance. On the other hand, downside risks to inflation outlook emanate from weaker global growth weighing on commodity prices and cost pressures.

Domestic monetary and financial conditions to remain conducive of financial intermediation activities: Credit supply is expected to remain forthcoming, supported by continued willingness to lend amid a healthy capital market. Credit demand will also be supported by improving economic and labour market conditions. As global financial conditions ease amidst monetary policy loosening in advanced economies, capital inflows to regional economies may increase following narrowing yield differentials. Global investors' confidence and steady progress of key infrastructure projects are also expected to further support the positive momentum in Malaysian equities. Given Malaysia's strong fundamentals and positive growth prospects, the current ringgit level is undervalued. In addition, financial markets expect the pressure on the ringgit to decline as external uncertainties abate. Any adverse spillovers from the global financial markets to domestic financial conditions and exchange rates will continue to be manageable. BNM remains vigilant to market developments, while ensuring sufficient liquidity and orderly functioning of the domestic financial market. Beyond conducting foreign exchange operations, BNM is actively engaging with government-linked companies (GLCs) and government-linked investment companies (GLICs) to encourage more consistent repatriation and conversion of their foreign investment income into ringgit. BNM is also stepping up engagements with international investors to highlight Malaysia's positive prospects and attractiveness as an investment destination. These actions are contributing to greater inflows, lending support to the ringgit.

Monetary policy will remain conducive to a sustainable economic growth while ensuring an environment of price stability: In 2024, MPC will continue to aim to ensure a monetary policy stance that is supportive of the economy and consistent with the current assessment of the inflation and growth prospects, on the back of potential domestic policy changes and a challenging external environment. Given the degree of uncertainty, the MPC remains vigilant of ongoing developments and their implications on the balance of risks surrounding domestic inflation and growth.

Economic, Monetary and Financial Developments in 2023

Economic, Monetary and Financial Developments in 2023

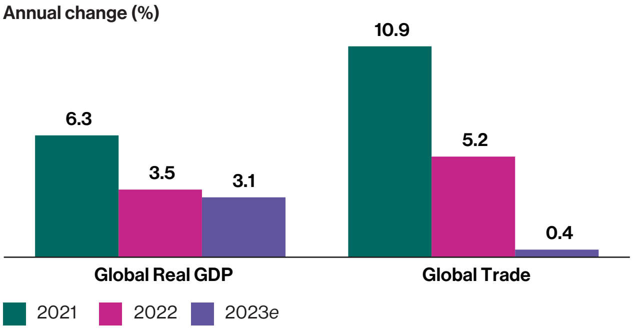
2023: MODERATE GROWTH UNDERPINNED BY DOMESTIC DEMAND AMID ELEVATED GLOBAL UNCERTAINTIES

Global growth slowed amid a challenging economic environment

In 2023, global growth slowed as tight monetary policy and elevated inflation weighed on economic activity (Chart 1.1). This was partially offset by strong wage growth and support from ample excess savings. In line with tepid demand, global trade weakened alongside other trade headwinds such as the rotation from goods to services, the global technology downcycle and higher trade restrictions. Meanwhile, China's growth rebounded following its post-COVID-19 reopening, but the optimism and momentum of the recovery were short-lived. Although headline inflation began softening, the moderation in core inflation was more modest than expected. This prompted central banks to keep interest rates at elevated levels.

In the advanced economies, strong wage growth and ample excess savings provided crucial support to consumer spending. These partially mitigated the effect of high interest rates and elevated inflation. Fiscal spending, particularly in the areas of defence, green transition and energy subsidy, also supported domestic demand. The US registered higher growth in 2023, as strong wage growth amid tight labour market conditions lifted consumer spending. The euro area saw a moderation in growth as high gas prices and inflation weighed on manufacturing activities and household spending amid weak real income growth. In particular, Germany observed weaker manufacturing activity, weighed by high gas prices and weakness in external demand.

Chart 1.1: Global Real GDP and Trade Growth



e Estimate

Note: Global real GDP is the aggregate global growth weighted by the purchasing power parity (PPP) exchange rate, the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.

Source: International Monetary Fund (IMF) January 2024 World Economic Outlook (WEO) and Bank Negara Malaysia estimates

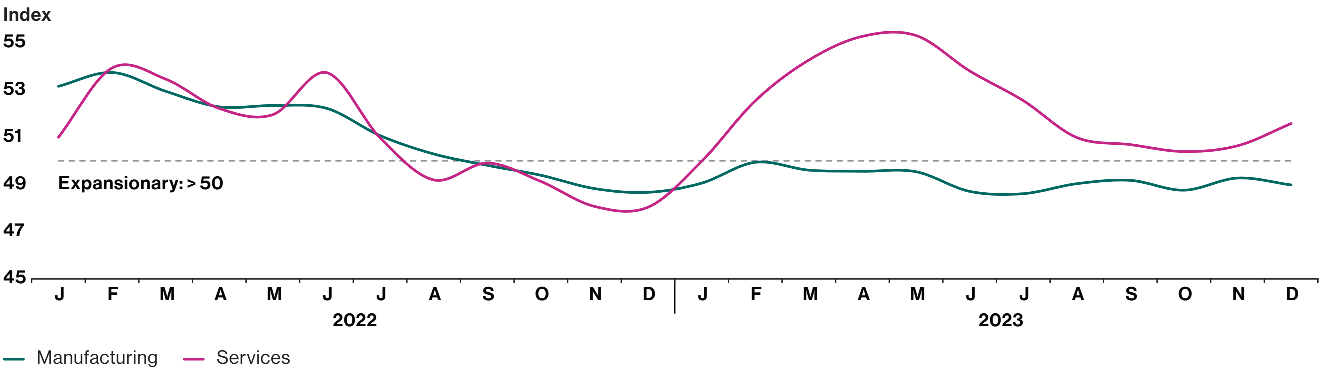
In March 2023, banking stress in the US and Europe induced concerns of broader contagion risks to the global financial system and potentially could derail growth. The episode was triggered by the collapse of Silicon Valley Bank in the US, which spilled over into Europe with the absorption of Credit Suisse into UBS in Switzerland. Central banks and banking supervision authorities swiftly responded by providing an immediate liquidity backstop to vulnerable banks. This contained the spillover to the global banking system and the broader economy.

Despite initial optimism following the lifting of the zero-COVID-19 policy in China, the economy was weighed by softer external demand and weaknesses in the property sector. Households remained cautious in spending and continued to build savings. This was partly attributed to negative wealth effects from protracted price declines in the housing sector and the stock market. Home sales and housing starts declined due to poor sentiments among buyers and a liquidity crunch among developers. Spillovers from further corrections in the property market to China's financial stability were contained, given ample capital buffers of financial institutions and various measures by authorities to stem further declines.[1] Nevertheless, consumer confidence was negatively affected by the property market downturn, which contributed to the slower-than-expected growth in China.

Global trade decelerated in 2023, in line with weaker demand conditions amid tight monetary policy and elevated inflation. Trade in goods was further weighed down by the continued spending rotation from goods to services (Chart 1.2), the global technology downcycle,[2] slower-than-expected domestic demand in China and higher trade restrictions.[3] Nevertheless, softening demand alongside the reopening of economies provided space for supply chain conditions to normalise. Delivery times and freight rates returned to pre-pandemic levels. The moderation in goods trade was partially offset by the recovery of global tourism activities, supported by strong pent-up demand, especially in the first half of 2023, and improved flight capacity. Global tourist arrivals recovered to 88% of pre-pandemic levels in 2023 with further room for recovery for Asia Pacific (65% of pre-pandemic levels), as some countries in the region reopened later and more cautiously than others.[4]

Global headline inflation moderated but remained elevated by historical standards, driven by lower commodity prices and normalisation of supply chain conditions. Nevertheless, there were intermittent upward price pressures from spikes in commodity prices due to geopolitical factors and extreme weather events, particularly in the second half of 2023. Oil prices were affected by production cuts announced by OPEC+ and the onset of the conflicts in the Middle East in October 2023. However, these were alleviated by strong oil production from non-OPEC countries. Overall, global crude oil prices remained below their June 2022 peak throughout 2023. Despite the moderation in headline inflation, underlying inflation (as measured by core inflation) remained elevated and persistent, prompting central banks to continue tightening monetary policy, albeit at a slower pace and lower quantum compared to 2022. The persistence in core inflation was accounted by services inflation, as resilient domestic demand, stronger-than-expected wage growth and continued spending rotation from goods to services put upward pressures on prices, especially in advanced economies. Meanwhile, inflation among emerging market economies reached its long-term average sooner than advanced economies, as inflationary pressures in the former were less severe to begin with (Chart 1.3). This was attributable to lower demand pressures and less tight labour markets in emerging market economies compared to advanced economies post-COVID-19. Lower inflation in China was another contributing factor to the more modest inflationary pressures in emerging market economies. Domestic factors such as moderate domestic demand, adequate food supply, suppressed rental rates and a price war among electric vehicle automakers led to lower consumer prices in China.

Chart 1.2: Global Purchasing Managers Index (PMI)



Source: S&P Global

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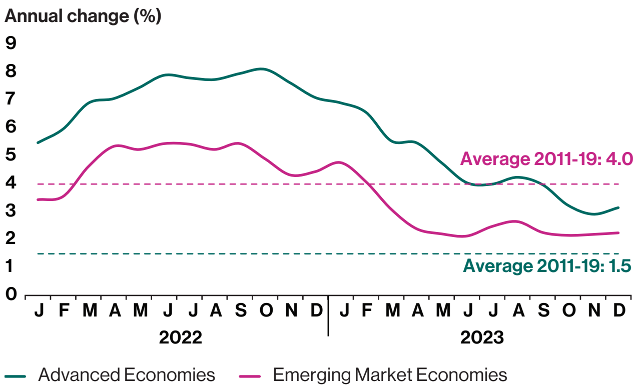
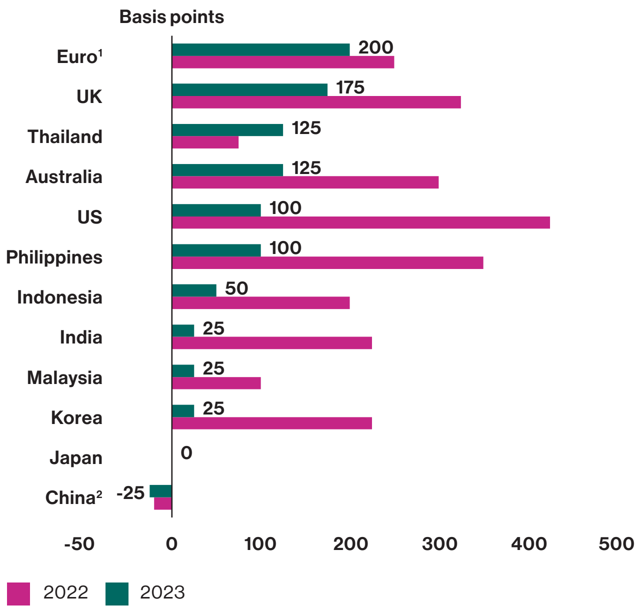
1 These included reducing interest rates on outstanding mortgages and providing liquidity for developers to complete existing projects.
2 The global technology downcycle was attributable to a global inventory correction and weakness in new orders as spending on technology was frontloaded during the pandemic.
3 These referred to export restrictions by the US on advanced semiconductor chips to China and retaliations by China via export controls on metals needed for semiconductor production in the US.
4 Source: United Nations World Tourism Organisation Barometer (January 2024)

Chart 1.3: Global Headline Inflation



Source: National authorities and Bank Negara Malaysia estimates

Chart 1.4: Change in Policy Rate of Selected Economies



[1] Refers to the European Central Bank's Deposit Facility Rate.
[2] Refers to the People's Bank of China's 1-year Medium-term Lending Facility Rate.

Source:Bloomberg

Global financial conditions were highly driven by evolving expectations of policy rate paths for the major economies amid diverging growth and inflation outlook

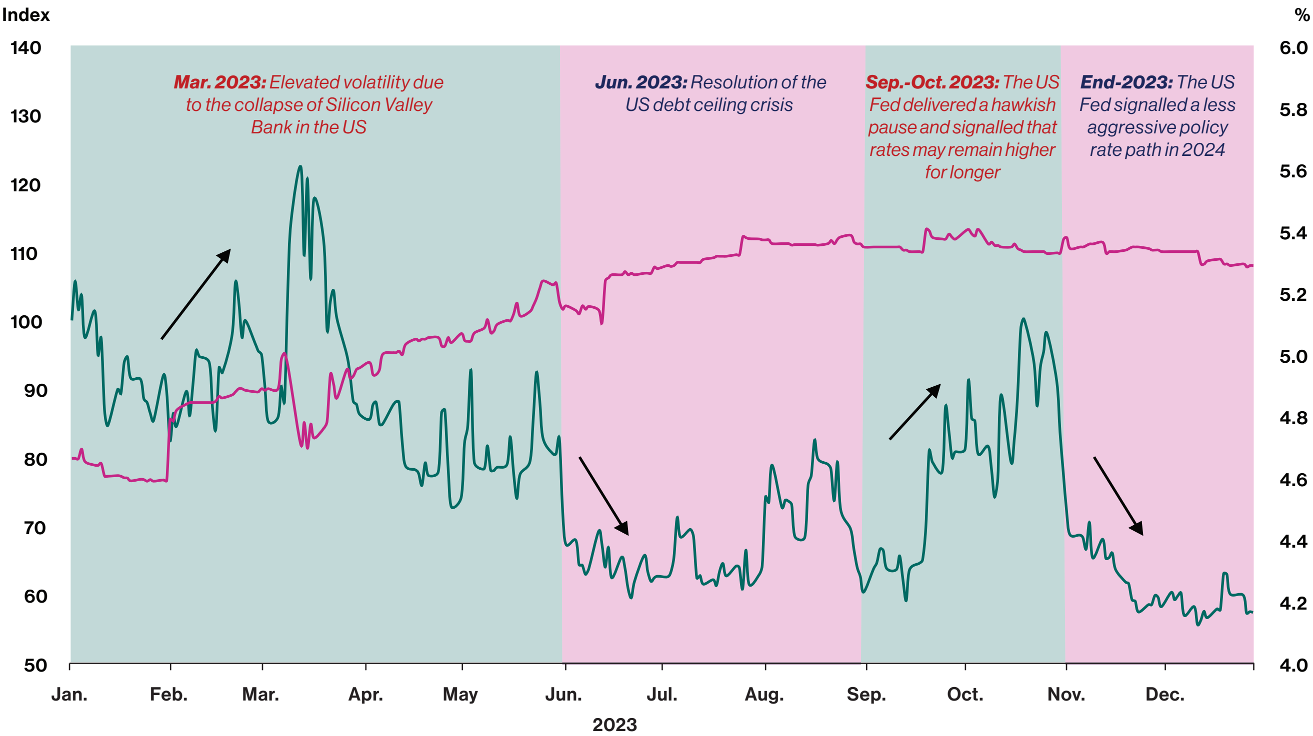
In 2023, financial markets continued to be shaped by the trajectory of tighter monetary policy globally. Central banks in most advanced economies raised interest rates further to tackle persistently high inflation (Chart 1.4). Of significance, the divergence between the market's expectations and monetary authorities over the pace and degree of tightening was a key source of volatility across asset classes, as evolving expectations led to rapid adjustments in asset prices and abrupt shifts in capital flows (Chart 1.5 & Chart 1.6).

Financial markets began the year fuelled by optimism surrounding China's economic reopening and growing sentiment that the global hiking cycle was nearing its end. However, investor sentiments took a turn with the emergence of banking sector stress stemming from the collapse of Silicon Valley Bank in the US and Credit Suisse in Switzerland. This led to recessionary concerns and a sharp correction in stock markets worldwide. Market participants initially priced in more imminent policy rate cuts but reversed course as the turmoil was contained.

The outlook on global interest rates path was further complicated by diverging economic and inflation prospects, particularly between advanced and emerging market economies. As the year progressed, expectations of positive spillovers from China's reopening dissipated. Signs of economic weakness emerged, prompting the People's Bank of China to loosen monetary policy. Conversely, central banks in advanced economies including the US Federal Reserve (the US Fed) signalled that interest rates may have to remain at restrictive levels for a longer period to steer inflation back to target. As a result, global bond yields surged between September and October 2023 as markets priced in the significant likelihood of higher-for-longer, with the 10-year US Treasuries rising to its highest level of 5% since the 2007–08 Global Financial Crisis. Financial conditions tightened and sustained US dollar strength led to exchange rate pressures in most emerging market currencies (Chart 1.7).

Towards the end of 2023, renewed geopolitical tensions in the Middle East introduced new uncertainties and concerns of disruptions in commodity markets. Nevertheless, with incoming data pointing to softer US inflation, financial conditions eased as market participants revised downwards their expectations of the future policy rate path. This was further supported by signalling from the US Fed that the current tightening cycle was likely nearing its peak. According to projections released at the final Federal Open Market Committee (FOMC) meeting of 2023, rate cuts were expected to begin in 2024, albeit uncertainties surrounding the timing of easing cycle remained.

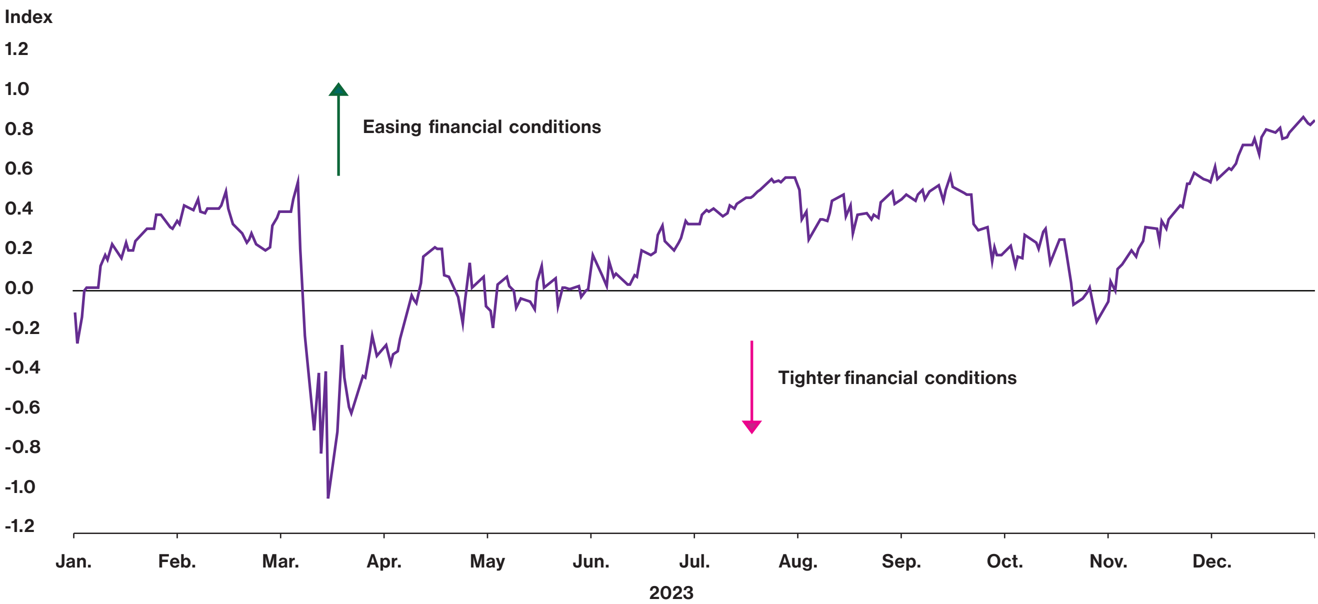
Chart 1.5: Financial Market Volatility Indicator (CBOE VIX) against Federal Funds Futures Implied Policy Rate Expectations



[1] Refers to expectations of FFR for the next FOMC meeting as implied by the Federal Funds Futures market.

Source: Bloomberg

Chart 1.6: Bloomberg US Financial Conditions Index



Note: The Bloomberg US Financial Conditions Index tracks the overall level of financial stress in the US money, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

Source: Bloomberg

Chart 1.7: 10-Year US Treasury (10Y UST) and US Dollar Index (DXY)

Note: The US dollar Index (DXY) is an index of the value of the US dollar against a basket of foreign currencies, namely EUR (57.6%), JPY (13.6%), GBP (11.9%), CAD (9.1%), SEK (4.2%), and CHF (3.6%).

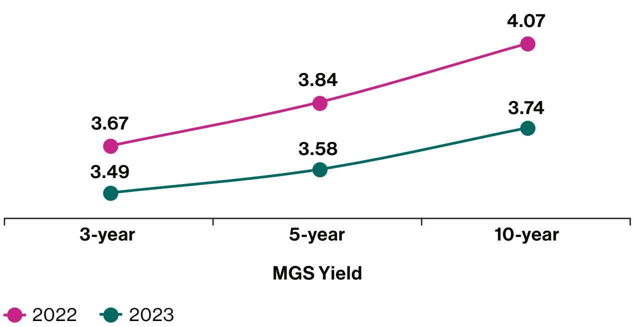
Source: Bloomberg

Domestic financial markets were affected by external headwinds, but spillovers to financial intermediation and wider economy were contained

The Malaysian financial markets were largely influenced by shifts in investor sentiment as external developments unfolded. Adjustments in global financial markets led to volatility in portfolio flows which spilled over to domestic financial conditions primarily through exchange rate fluctuation. Nevertheless, the impact was partly offset by positive domestic factors. These included improved macroeconomic prospects amid ongoing structural reforms aimed at attracting investments and enhancing long-term growth potential, which lent support to investors' confidence.

In the bond market, movements in the Malaysian Government Securities (MGS) yields broadly tracked global trends but fluctuations were more moderate. In line with the surge in global bond yields between September and October, MGS yields rose to a lesser extent before declining towards the year end following the easing of market expectations on the US Fed's policy rate path. Overall, the 3-year, 5-year and 10-year MGS yields decreased by 18, 26 and 33 basis points respectively (Chart 1.8). Despite the widening interest rate differential against advanced economies, the domestic bond market recorded non-resident inflows of RM4 billion (2022: -RM38.1 billion) in 2023. This reflected investors' confidence in Malaysia's sovereign credit quality on the back of fiscal reforms and favourable domestic macroeconomic prospects as well as attractive currency-hedged returns.[5]

Chart 1.8: Malaysian Government Securities (MGS) Yield Curve (%)



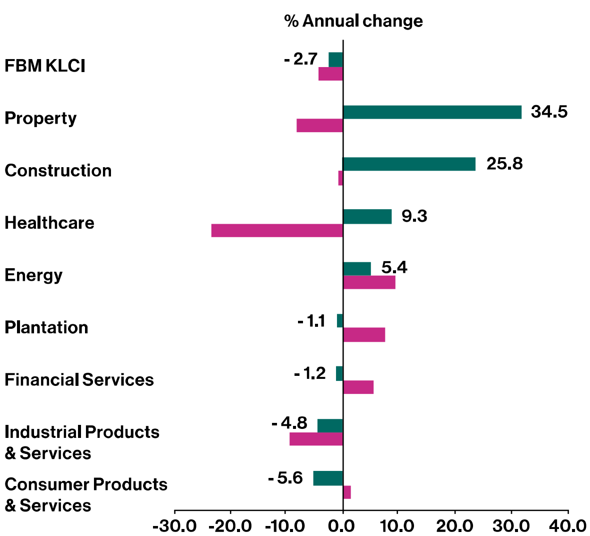
Source: Bank Negara Malaysia

[5] Refers to the returns from holding a foreign currency-denominated bond (e.g. MGS) in which the currency risk is hedged back to the home currency of the investor (e.g. USD). For illustration, in 2023, the approximated currency-hedged yields from holding a 3-year MGS that was hedged using 3-month USD/MYR foreign exchange (FX) forward contracts can range up to 6% on annualised basis.

The domestic equity market was affected by external factors as the global interest rate environment dampened appetite for risky assets. The ripple effects stemming from fears of a banking crisis in March 2023 were quickly felt across stock markets globally including Malaysia, as investors moved to safe haven assets such as the US Treasuries. Overall, the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) declined by 2.7% (2022: -4.6%) to close at 1,454.7 points (Chart 1.9). Nevertheless, the domestic equity market was partly supported by positive domestic factors. In particular, improved political stability following the conclusion of state elections as well as expected positive spillovers from the announcement of national master plans and special economic zones lifted the outlook.[6] Foreign interest partially recovered in the second half of 2023, with the equity market recording non-resident inflows of RM2.5 billion (2022: RM18 billion) for the year.

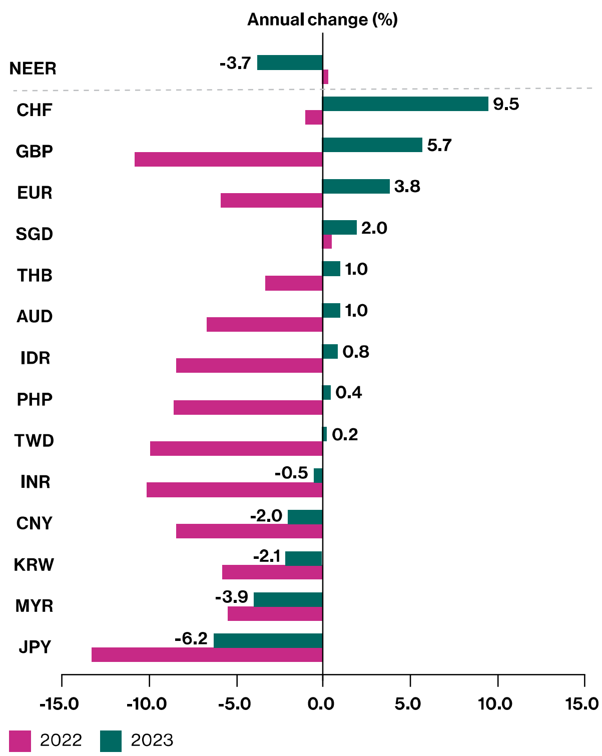
In the foreign exchange (FX) market, the ringgit exchange rate depreciated by 3.9% against the US dollar and by 3.7% against major trade partners in nominal effective terms (Chart 1.10). This was mainly due to more aggressive policy rate hikes by other central banks throughout 2023. Furthermore, expectations of weaker-than-expected growth in China also partly weighed on sentiments given Malaysia's close trade linkages with China. There was considerable variation in the ringgit's performance over the course of 2023. Strong portfolio inflows into the domestic equity and bond markets in July provided support and contributed to the ringgit's appreciation. However, in line with most emerging market currencies, the ringgit depreciated against the US dollar between September and October as market participants adjusted their expectations for a higher-for-longer environment upon hawkish signalling by the US Fed. Market expectations shifted subsequently when the US Fed signalled that rate cuts may commence in 2024 amid lower-than-expected US inflation data, with the ringgit retracing to RM4.5915 at end-2023.

Chart 1.9: Performance of FBM KLCI and Sectoral Stock Indices



Source: Bursa Malaysia

Chart 1.10: Performance of Major and Regional Currencies against the US Dollar and Ringgit Nominal Effective Exchange Rate (NEER)



Note: (+) indicates an appreciation of currencies against the US dollar. NEER shows the value of the ringgit against a trade-weighted basket of Malaysia's major trading partners' currencies.

Source: Bank Negara Malaysia

Despite the effects of external developments, financial markets remained orderly and financial intermediation continued without disruptions. This was attributed to the relatively deep and liquid financial markets[7] and sound banking system which served as buffers against external

[6] These included the New Industrial Master Plan 2030 (NIMP 2030) and the National Energy Transition Roadmap (NETR), Johor-Singapore Special Economic Zone as well as key infrastructure projects such as Bayan Lepas Light Rail Transit.

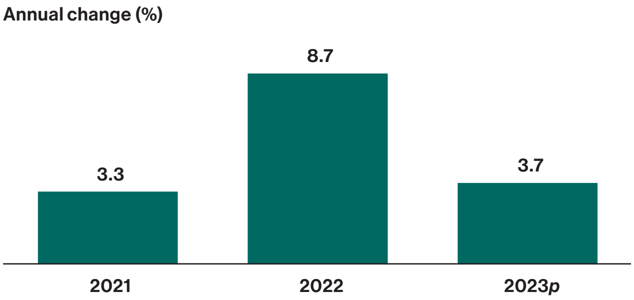
[7] Daily onshore FX trading volume remained healthy, averaging at USD15.6 billion in 2023 (2022: USD13.7 billion).

shocks. Financing conditions remained supportive of the domestic economy, with sustained fund-raising activity in the capital market and continued flow of bank credit. Existing prudential requirements on external borrowing by Bank Negara Malaysia (BNM) minimised the adverse impact of the ringgit's depreciation on Malaysia's external debt, alongside favourable maturity and currency profiles. Almost a third of Malaysia's external debt (33.1%; 2022: 33.1%) was denominated in ringgit and therefore not affected by fluctuations in the exchange rate. The remainder of foreign currency-denominated external debt were mainly held by banks and corporates which generally adopted prudent FX risk management practices, with most of it hedged either naturally or financially. Meanwhile, the effect of the ringgit's depreciation to inflation remained manageable. This is due partly to the presence of administered price controls and subsidies on key necessities which helped to stabilise cost pressures. Furthermore, BNM's liquidity and FX operations also provided necessary support to smoothen excessive volatility and ensure orderly market conditions.

The Malaysian economy continued to expand in 2023 despite external headwinds

Despite the challenging external environment, the Malaysian economy grew by 3.7%, supported by resilient domestic demand and further recovery in tourism activities (Chart 1.11). During the year, the economy faced multiple challenges from weak external demand, disruptions in commodity production and higher cost of living, which weighed on household spending. The more moderate growth also reflected normalising conditions from the high base in 2022, which was supported by the reopening of the economy and sizeable policy measures. The confluence of these factors led growth to reach its trough in the second quarter of 2023 (Chart 1.12).

Chart 1.11: Malaysia's Real GDP Growth



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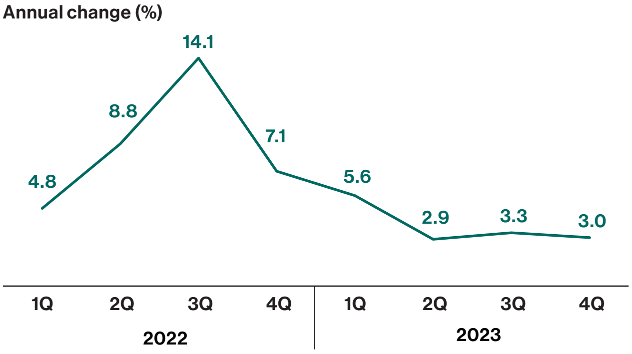
Source: Department of Statistics, Malaysia

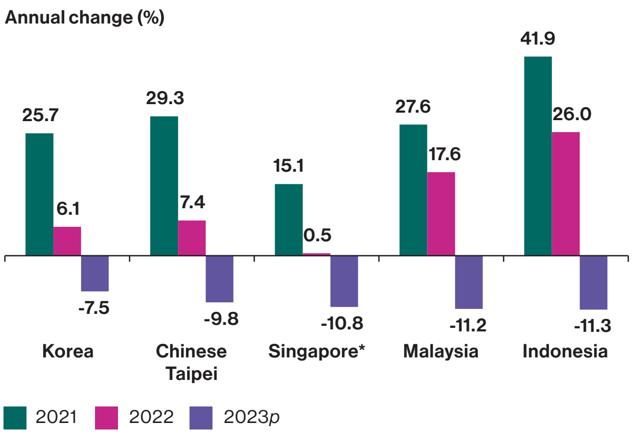
Chart 1.12: Malaysia's Quarterly Real GDP Growth



Source: Department of Statistics, Malaysia

On the external front, headwinds from more moderate global growth and weak trade activity were partly offset by improving tourism activities. Exports declined in 2023 due to moderating external demand conditions, lower commodity prices, continued spending rotation from goods to services, global technology downcycle and high base effects from strong global demand for goods in the previous year. In line with the export performance of regional economies, Malaysia's gross exports recorded a contraction (Chart 1.13). Gross imports also declined due to weaker demand for intermediate goods and softening domestic demand. Nevertheless, the ongoing recovery of inbound tourist arrivals and expenditure cushioned the impact of weak exports of goods. The reopening of China's international borders provided further impetus to tourism activities. The current account of the balance of payments continued to record a surplus, albeit narrower compared to 2022 due to weaker external demand conditions which was partially offset by improving travel receipts.

Chart 1.13: Gross Exports (USD)



* Refers to non-oil domestic exports

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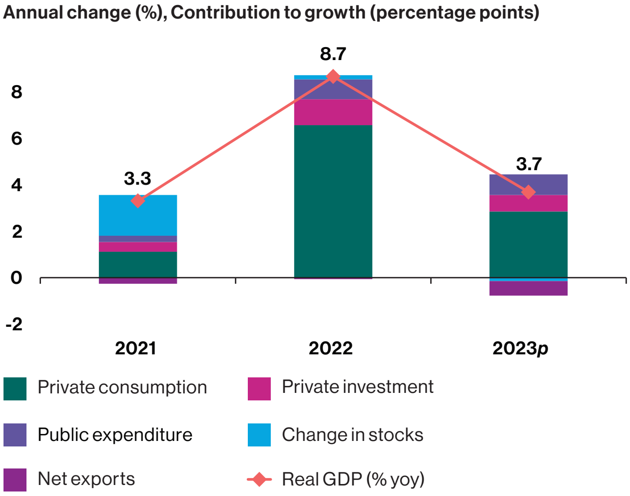
Source: National authorities

Despite these challenges, the Malaysian economy continued to expand in 2023, driven mainly by domestic demand (Chart 1.14). Labour market conditions improved as the unemployment rate declined to its pre-pandemic level. Employment growth exceeded its long-term trend and the labour force participation rate reached a historical high. Employment grew despite weaker external demand as firms preferred to retain workers due to concerns over difficulties and high cost of rehiring when external demand recovered.[8] Improving labour market conditions underpinned household spending on both necessities and discretionary items. Supportive policy measures such as targeted cash transfers were also in place to assist vulnerable households affected by higher cost of living. Gross fixed capital formation growth (2023: 5.5%; 2022: 6.8%) was driven by private sector capital spending across various industries such as information and communications technology (ICT), and electrical and electronics (E&E). These included investments in data centres and cloud computing as well as capacity expansion by firms. Meanwhile, higher public spending on infrastructure projects further supported investment activity.

In tandem with external trade performance, growth in export-oriented industries moderated sharply after two years of strong growth. While the Malaysian economy had fully recovered to its pre-pandemic level in the first quarter of 2022, selected sectors such as the food and beverages and accommodation sub-sectors, as well as the mining and quarrying, and construction sectors remained below their pre-pandemic levels.[9] This was due to the partial recovery of tourist arrivals, maturing oil and gas fields and facility closures, as well as limited replenishment of new mega projects respectively. It is noteworthy that all sectors continued to expand in 2023 (Chart 1.15).

Chart 1.14: Real GDP by Expenditure



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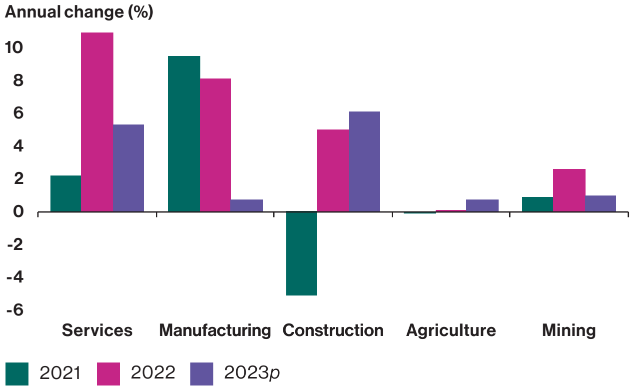
Source: Department of Statistics, Malaysia

Chart 1.15: Real GDP by Economic Sectors



p Preliminary

Source: Department of Statistics, Malaysia

[8] These insights were gathered from BNM's industrial engagements.

[9] These industries account for a combined 12.8% share of the economy.

Table 1.1

Malaysia - Key Economic Indicators

	2021	2022	2023*p*	2024*f*
Population (million persons)	32.6	32.7	33.4	33.7
Employment (million persons)	15.3	15.8	16.2	16.5
Unemployment (as % of labour force)	4.7	3.8	3.4	3.3
Per Capita Income (RM)	46,253	52,968	52,955	55,295
(USD)	11,163	12,035	11,598	11,696[4]
NATIONAL PRODUCT (% change)				
Real GDP at constant 2015 prices	3.3	8.7	3.7	4.0-5.0
(RM billion)	1,390.6	1,510.9	1,566.5	1,637.1
Agriculture	-0.1	0.1	0.7	-0.5
Mining and quarrying	0.9	2.6	1.0	3.5
Manufacturing	9.5	8.1	0.7	3.5
Construction	-5.1	5.0	6.1	6.7
Services	2.2	10.9	5.3	5.5
Nominal GNI	8.4	14.9	2.1	5.5
(RM billion)	1,506.7	1,731.9	1,767.6	1,864.3
Real GNI	2.8	7.9	4.1	4.1
(RM billion)	1,369.8	1,478.4	1,539.4	1,602.1
Real aggregate domestic demand[1]	1.9	9.2	4.8	5.4
Private expenditure	2.0	10.3	4.7	5.8
Consumption	1.9	11.2	4.7	5.7
Investment	2.7	7.2	4.6	6.1
Public expenditure	1.5	4.7	5.1	4.0
Consumption	6.4	4.5	3.9	3.2
Investment	-11.1	5.3	8.6	6.2
Gross national savings (as % of GNI)	26.7	27.5	24.5	23.7
BALANCE OF PAYMENTS (RM billion)				
Goods balance	177.6	186.0	132.9	163.8
Exports	1,005.8	1,238.2	1,052.7	1,133.6
Imports	828.2	1,052.2	919.8	969.8
Services balance	-65.7	-56.4	-41.9	-40.9
Primary income, net	-42.2	-59.4	-55.1	-68.3
Secondary income, net	-9.6	-15.1	-13.2	-13.2
Current account balance	60.2	55.1	22.8	41.5
(as % of GDP)	3.9	3.1	1.2	1.8-2.8
Bank Negara Malaysia international reserves, net[2]	486.8	503.3	520.8	-
(in months of imports of goods and services)[3]	5.9	4.8	5.4	-
(in months of retained imports)	7.7	6.3	7.0	-
PRICES (% change)				
Consumer Price Index (2010=100)	2.5	3.3	2.5	2.0-3.5
Producer Price Index (2010=100)	9.5	7.8	-1.9	-

[1] Exclude stocks.
[2] All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain/loss has been reflected accordingly in the Bank Negara Malaysia's audited accounts.
[3] For further details, please refer to "Expansion of the Measure on Reserves Coverage of Imports – from Retained Imports to Imports of Goods and Services" article in BNM's Quarterly Bulletin for the Fourth Quarter of 2021.
[4] Based on average USD exchange rate for the period of January-February 2024.

p Preliminary
f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table 1.2

Malaysia - Financial and Monetary Indicators

FEDERAL GOVERNMENT FINANCE (RM billion)	2021	2022	2023
Revenue	233.8	294.4	315.0
Operating expenditure	231.5	292.7	311.3
Net development expenditure	63.3	70.2	95.1
COVID-19 Fund	37.7	31.0	-
Overall balance	-98.7	-99.5	-91.4
Overall balance (% of GDP)	-6.4	-5.6	-5.0
Public sector net development expenditure	125.7	148.6	190.6
Public sector overall balance (% of GDP)	-8.3	-6.7	-7.5
EXTERNAL DEBT			
Total debt (RM billion)	1,080.4	1,144.7	1,242.5
Medium- and long-term debt	676.2	663.0	724.1
Short-term debt	404.2	481.6	518.4
Debt service ratio[1] (% of exports of goods and services)			
Total debt	10.8	11.4	13.1
Medium- and long-term debt	10.6	11.1	12.1

	Change in 2021		Change in 2022		Change in 2023	
MONEY AND BANKING	**RM billion**	**%**	**RM billion**	**%**	**RM billion**	**%**
Money supply M1	54.6	10.4	24.7	4.3	35.5	5.9
M3	130.8	6.4	93.9	4.3	136.4	6.0
Banking system deposits	132.4	6.3	132.0	5.9	132.1	5.6
Banking system loans[2]	80.6	4.4	108.9	5.7	107.2	5.3
Loan to fund ratio (%, end of year)[3,4]	81.2		82.5		81.8	
Loan to fund and equity ratio (%, end of year)[3,4,5]	70.8		71.9		71.6	

INTEREST RATES (%, AS AT END-YEAR)	2021	2022	2023
Overnight Policy Rate (OPR)	1.75	2.75	3.00
Interbank rates (1-month)	1.83	2.95	3.34
Commercial banks			
Fixed deposit 3-month	1.57	2.55	2.72
12-month	1.71	2.65	2.83
Savings deposit	0.56	0.85	0.94
Weighted average base rate (BR)	2.43	3.42	3.67
Base lending rate (BLR)	5.49	6.42	6.68
Treasury Bill (3-month)[6]	1.79	2.93	3.18
Malaysian Government Securities (1-year)[6]	1.85	3.25	3.30
Malaysian Government Securities (5-year)[6]	3.15	3.86	3.57

EXCHANGE RATES (AS AT END-YEAR)	2021	2022	2023
Movement of Ringgit (%)			
Change against SDR	-1.4	-0.4	-5.0
Change against USD	-3.9	-5.4	-3.9

1 Includes prepayment of medium- and long-term debt
2 Includes loans sold to Cagamas with recourse. Data from 2021 onwards are based on the new set of loan data reflecting the latest requirements and cannot be directly compared to previous years' data.
3 Loans exclude loans sold to Cagamas and loans extended to banking institutions. Beginning July 2015, loans exclude financing funded by Islamic Investment accounts.
4 Funds comprise deposits (excluding deposits accepted from banking institutions and Bank Negara Malaysia) and all debt instruments (including subordinated debt, debt certificates/sukuk issued, commercial paper and structured notes).
5 Equities comprise ordinary and preferred shares, share premium and retained earnings.
6 Refers to data from Fully Automated System for Issuing/Tendering (FAST), Bank Negara Malaysia.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Domestic demand was the anchor for growth in 2023 as exports declined

In the aftermath of the pandemic crisis and recovery in the past two years, the Malaysian economy grew at a moderate pace of 3.7% in 2023, following the robust rebound in 2022 (8.7%). The growth performance was driven by resilient domestic demand, particularly by private sector expenditure. Household spending continued to expand with improvements in labour market conditions. The unemployment rate declined to pre-pandemic levels while labour force participation rate reached an all-time high of 70% by end-2023 (2019: 68.7%). Meanwhile, investment activity benefitted from continued progress of multi-year projects and capacity expansion by firms. Public expenditure increased on account of higher fixed asset spending by the Government and continued expansion in capital spending by public corporations. On the external front, net exports contracted as exports declined amid weaker external demand and global technology downcycle. This was partly cushioned by improving tourism activities, as tourist arrivals recovered to 77% of pre-pandemic levels in 2023.

Table 1

Real GDP by Expenditure (2015=100)

	2023*p*	2022	2023*p*	2022	2023*p*
	% of GDP	Annual change (%)		Contribution to growth (percentage point)	
Domestic Demand[1]	**94.1**	**9.2**	**4.8**	**8.5**	**4.4**
Private sector expenditure	76.2	10.3	4.7	7.7	3.6
Consumption	60.8	11.2	4.7	6.6	2.8
Investment	15.5	7.2	4.6	1.1	0.7
Public sector expenditure	17.8	4.7	5.1	0.9	0.9
Consumption	13.3	4.5	3.9	0.6	0.5
Investment	4.6	5.3	8.6	0.2	0.4
Gross Fixed Capital Formation	20.1	6.8	5.5	1.4	1.1
Change in stocks	**1.2**			**0.2**	**-0.1**
Net Exports of Goods and Services	**4.7**	**-1.0**	**-11.3**	**-0.1**	**-0.6**
Exports	66.3	14.5	-7.9	10.3	-5.9
Imports	61.6	15.9	-7.6	10.3	-5.3
Real Gross Domestic Product (GDP)	**100.0**	**8.7**	**3.7**	**8.7**	**3.7**

[1] Excluding stocks
p Preliminary

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Private consumption moderated to 4.7% in 2023, after a strong recovery in 2022 (11.2%), following the lapse of effects from various Government policy measures in 2021 and 2022. Private consumption was supported by continued improvement in employment and income levels. Overall employment registered a growth of 2.8% while aggregate nominal wages expanded by 3.7% in the private sector and 6.1% for the public sector. Necessities expenditure recorded a growth of 6.7% largely driven by transport, utilities and food and beverage spending, while discretionary expenditure expanded by 5% led by restaurant and hotel spending. Some policy support to households remained in place throughout the year. This includes cash transfers and income support from the implementation of a higher minimum wage and revision of the income eligibility for overtime payments.

Gross fixed capital formation (GFCF) registered a growth of 5.5% (2022: 6.8%). By types of assets, growth was supported by higher investments in structures (6.2%; 2022: 4.7%), and continued purchase of machinery and equipment (M&E) (5.2%; 2022: 10.2%), as well as investment in other assets (2.8%; 2022: 2.3%).

Private investment expanded by 4.6% in 2023 (2022: 7.2%). Growth was driven by the implementation of new and ongoing multi-year projects. These were mainly in the services and manufacturing sectors including information and communications technology (ICT), electrical and electronics (E&E) and chemicals and chemical products industries. Investment activity also benefitted from the gradual recovery in labour supply and easing cost pressures. This is reflected in the strong growth in construction work undertaken by the private sector (2023: 9.2%; 2022: 17.6%). Firms also continued to expand their capacity through acquisition of new machinery and equipment (M&E), as indicated by robust growth in capital imports (2023: 7.2%; 2022: 15.8%). Furthermore, the adoption of automation and digitalisation, as well as gradual green transition among firms lent further support to investment growth.

Public investment spending increased by 8.6% in 2023 (2022: 5.3%). This was driven by higher fixed asset spending by the Government. Growth was also supported by continued expansion by public corporations, mainly in the oil and gas (O&G) and transportation industry.

Public consumption expanded by 3.9% (2022: 4.5%), supported by Federal Government's spending on both emoluments and supplies and services. In particular, emoluments spending was higher driven by the Special Additional Salary Increment for civil servants and the absorption of contract workers to permanent positions.

Expansion in all economic sectors

Economic activity in 2023 was mainly driven by the *services* and *construction* sectors. Weaker external demand and tech cycle downturn had weighed on manufacturing activity. Meanwhile, temporary domestic supply disruptions had constrained growth in the *agriculture* and *mining* sectors.

Table 2

Real GDP by Kind of Economic Activity (2015 = 100)

	2023	2022	2023*p*	2022	2023*p*
	% of GDP	Annual change (%)		Contribution to growth (ppt)[1]	
Services	59.2	10.9	5.3	6.2	3.1
Manufacturing	23.4	8.1	0.7	2.0	0.2
Agriculture	6.4	0.1	0.7	0.0	0.0
Mining and quarrying	6.2	2.6	1.0	0.2	0.1
Construction	3.6	5.0	6.1	0.2	0.2
Real Gross Domestic Product (GDP)	**100.0[1]**	**8.7**	**3.7**	**8.7**	**3.7**

[1] Figures may not necessarily add up due to rounding and exclusion of import duties component
p Preliminary

Source: Department of Statistics, Malaysia

The *services* sector expanded by 5.3% (2022: 10.9%). Growth was driven mainly by consumer-related (wholesale and retail trade, food and beverages, and accommodation) and transport and storage subsectors which benefitted from improved tourism-related spending, with the reopening of China's international borders providing further impetus to tourism activities. Real estate and business services subsectors continued to grow in line with the expansion in construction activities, albeit at a moderate pace amid weak external demand. Meanwhile, the finance and insurance subsector was weighed down mainly by the increase in medical claims amid higher cost and frequency of claims for medical treatment post-COVID-19 pandemic.

The *manufacturing* sector growth slowed to 0.7% (2022: 8.1%). Weakness in the production of export-oriented clusters was partly cushioned by resilience in the domestic-oriented clusters. Reflecting Malaysia's deep integration in the global value chain, the E&E industry was impacted by the slowdown in global semiconductor sales as firms experienced subdued external demand and elevated inventory levels. Output in the primary-related cluster was affected by upstream supply disruptions and maintenance of refineries. Nevertheless, strong demand for motor vehicles and continued recovery in tourism activities supported growth of the consumer-related cluster. Meanwhile, the construction-related cluster benefitted from the pickup in infrastructure activities.

The *agriculture* sector continued to expand by 0.7% (2022: 0.1%), mainly attributable to higher oil palm production. Oil palm yields were supported by a normalisation of labour conditions following the larger scale arrival of foreign workers, notwithstanding temporary hot weather in second quarter that led to forced ripening of fruit and lowering of yields. Meanwhile, output from the food crops and paddy subsectors benefitted from improving fertiliser supply as global shocks to the supply chain eased. In aggregate, these had offset the weaker output in the rubber, forestry and fisheries subsectors.

The *mining* sector expanded by 1% (2022: 2.6%) in 2023. Growth was mainly driven by an increase in oil production in existing fields as well as support from the operationalisation of new fields in Sarawak and Peninsular Malaysia. However, oil and gas production was lower in the second and third quarter due to plant maintenances, which have since been completed.

The *construction* sector registered a growth of 6.1% (2022: 5%) with continued expansion across most subsectors. This was supported by better labour supply conditions and easing of building material costs during the year. The growth was driven by the faster progress of multi-year civil engineering projects, particularly in the transport and utilities segments. Activities in the special trade subsector also provided further support to growth. This includes the ongoing early- and end-stage works as well as continued implementation of small-scale projects. Meanwhile, growth in the residential subsector rebounded as housing demand improved further amid better income and employment conditions.

Improving labour market conditions in 2023

In 2023, the labour market continued to improve. Employment grew by 2.8% (+439,200 persons; 2022: 3.1%, +472,400 persons). Of significance, the labour force participation rate reached a historic high of 70% (2022: 69.3%). The unemployment rate continued to decline towards pre-pandemic rates (2023: 3.4%; 2019: 3.3%).

The growth in employment in 2023 was mainly driven by semi-skilled workers, who continued to account for the largest employment share at 59.1% (2022: 59.6%). By status of employment, own-account workers[10] contributed more significantly to total employment growth compared to pre-pandemic years.[11] This was likely due to the rise of gig workers, as both displaced workers and new entrants into the labour force joined the gig economy amid trends such as the strong demand for food delivery. Despite weaker external demand during the year, employment was broadly sustained as most workers are employed in domestic-oriented economic sectors. BNM's industrial engagements also found that firms indicated intentions to retain workers due to concerns over difficulties and high cost of rehiring when external demand recovered. On the other hand, improved tourism activities led to increased hiring of workers in select high-touch services subsectors. In particular, the food and beverages and accommodation, and wholesale and retail trade subsectors were major drivers of overall employment growth during the year. Meanwhile, employment in the *construction* sector rebounded. This was supported by faster progress of multi-year investment projects amid continuing easing of labour supply constraints throughout the year.

Jobless claims reported by the Social Security Organisation's (SOCSO) Employment Insurance System (EIS)[12] rose during the year (2023: 49,982; 2022: 34,388), which accounted for about 0.3% of the total labour force. These claims were mainly contributed by the *manufacturing* sector and wholesale and retail trade subsector. For comparison, jobless claims stood at a high of 107,024 during the height of COVID-19 in 2020.

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[10] Refers to individuals who operates their own farm, business or trade on a full-time basis, without employing any paid workers (Source: Department of Statistics, Malaysia).
[11] Refers to 2016–19 period.
[12] For more information, please refer to the Weekly EIS Reports on eiscentre.perkeso.gov.my.

Labour force participation rate reached a historic high of 70.2% in December 2023. This was due to a significant increase in participation rate for men during the year (82.8%; 2022: 81.9%). Increased opportunity in gig work, through which workers could easily enter the workforce contributed to this development. Female labour force participation also rose (56.2%; 2022: 55.8%), particularly among those with tertiary education (67.9%; 2022: 66.9%). Higher tertiary education enrolment among women in recent years could be a factor behind this (Female tertiary gross enrolment ratio[13] in 2020: 48.2%; 2017: 47%).

Aggregate nominal wages in the private sector[14] increased at a moderated pace of 3.7% (2022: 6.7%). In the *services* sector, wages grew by 3.8% (2022: 7.5%), driven primarily by the wholesale and retail trade, and transportation and storage subsectors. While employment in the *manufacturing* sector remained relatively strong, its wages registered a lower growth of 3.5% (2022: 5.2%). The moderation was broad-based across most subsectors, but particularly evident in the export-oriented industries (2023: 2.7%, 2022: 5.4%). This mainly reflected the moderating external demand conditions and global technology downcycle. Meanwhile, wages in the public sector edged higher during the year (6.1%; 2022: 5%).

Labour productivity growth, in terms of real value-added per hour worked, moderated in 2023 (0.2%; 2022: 1.8%). The *manufacturing* sector recorded the largest decline in productivity growth as production in the E&E subsector slowed while employment remained relatively strong.

Table 3

Selected Labour Market Indicators

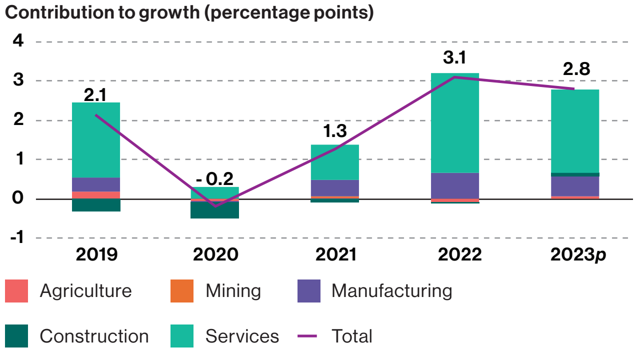
	2018	2019	2020	2021	2022	2023*p*
Employment ('000 persons)	14,810	15,126	15,096	15,290	15,762	16,201
Annual change (%)	2.4	2.1	-0.2	1.3	3.1	2.8
Unemployment rate (% of labour force)	3.3	3.3	4.5	4.7	3.8	3.4
Labour force participation rate (% of working age population)	68.4	68.9	68.5	68.5	69.3	70.0
Jobless claims (persons)	23,697	40,084	107,024	61,360	34,388	49,982
Non-Malaysian citizens employment ('000 persons)	2,239	2,254	2,214	2,149	2,136	2,200

p Preliminary

Note:
1. The employment, unemployment, labour force participation rates and non-Malaysian citizens employment are estimated based on quarterly averages from the Labour Force Survey.
2. Jobless claims refers to claims by insured person who had lost his employment and does not include voluntary resignations and retrenchment due to misconduct.

Source: Department of Statistics, Malaysia, Social Security Organisation (SOCSO) and Bank Negara Malaysia estimates

Chart 1: Employment Growth by Sector, 2019-23



p Preliminary

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

[13] Refers to ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to tertiary education. Source: World Bank.
[14] Private sector wages are derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia.

External sector remained resilient in 2023

Malaysia's external position remained resilient despite the challenging global landscape in 2023. The current account registered a smaller surplus of RM22.8 billion or 1.2% of GDP (2022: RM55.1 billion or 3.1% of GDP). Goods surplus moderated due to the lower exports but partially mitigated by narrowing deficits in income and services account. From a savings – investment (S–I) gap perspective, the smaller gap was driven by lower national savings, reflecting lower earnings from exports.

Table 4

Balance of Payments[1]

Item (Net)	2021	2022	2023*p*
	RM billion		
Current account	**60.2**	**55.1**	**22.8**
Goods[2]	177.6	186.0	132.9
Services	-65.7	-56.4	-41.9
Primary income	-42.2	-59.4	-55.1
Secondary income	-9.6	-15.1	-13.2
Capital account	**-0.5**	**-0.5**	**-0.2**
Financial account	**16.2**	**12.4**	**-18.9**
Direct investment	31.1	15.9	4.6
Portfolio investment	18.8	-50.6	-45.7
Financial derivatives	-2.3	-2.2	-3.9
Other investment	-31.4	49.2	26.0
Net errors and omissions (E&O)[3]	**-30.3**	**-13.6**	**-24.2**
Overall balance	**45.7**	**53.4**	**-20.6**

[1] In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF)

[2] Adjusted for valuation and coverage of goods for processing, storage and distribution

[3] The net E&O excludes reserves revaluation changes.

p Preliminary

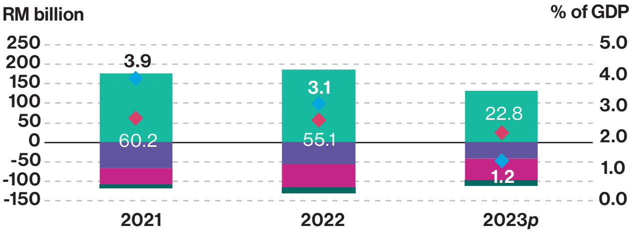
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

In the goods account, exports declined at a faster rate relative to imports. This resulted in a lower goods surplus of RM132.9 billion (2022: RM186 billion). The decline in exports was due mainly to sluggish global demand for goods from major trading partners, global technology downcycle and lower commodity prices. The services account recorded a smaller deficit of RM41.9 billion in 2023 (2022: -RM56.4 billion), reflecting the strong recovery in the travel receipts to RM67.5 billion (2022: RM28.4 billion). This was supported by higher number of regional tourist, with the revival of China's outbound travel following the lifting of its COVID-19 restrictions providing additional boost to inbound tourism.

In the income account, the primary income deficit narrowed to RM55.1 billion (2022: -RM59.4 billion). This was accounted mainly by lower investment income accrued to foreign investors in Malaysia following lower exports earnings. The secondary income account recorded a smaller deficit of RM13.2 billion (2022: -RM15.1 billion). This was supported by higher inward remittances from Malaysians working abroad, which partly offset continued increase in outward remittances by foreign workers.

In 2023, the financial account turned around to record a net outflow of RM18.9 billion (2022: +RM12.4 billion). This was due mainly to large outflows in portfolio investment, which more than offset the inflows from other investment and direct investment accounts.

Chart 2: Current Account Balance

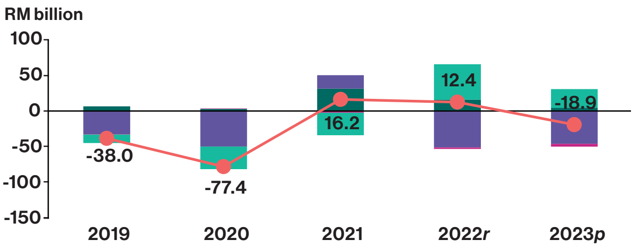


Goods
Services
Primary income
Secondary income
Current account balance
Current account balance, % of GDP (RHS)

p Preliminary

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 3: Financial Account Flows by Key Components



Direct investment
Portfolio investment
Financial derivatives
Other investment
Financial account balance

p Preliminary
r Revised

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The direct investment account registered a net inflow of RM4.6 billion (2022: +RM15.9 billion). Of note, net FDI recorded an inflow of RM39.5 billion (2.2% of GDP; 2022: +RM74.6 billion, 4.2% of GDP). This reflected the sustained interests by foreign investors to expand their production capacity in Malaysia. In particular, FDI inflows for the year originated mainly from Singapore (55.7% of net FDI), Hong Kong SAR (39.2%) and Japan (12.0%).[15] However, the more moderate external demand affected investor sentiments and led to slower FDI inflows during the year. From a sectoral perspective, foreign investments were mainly channelled into the *services* sector. This included finance and insurance services (2023: +RM14.4 billion; 2022: +RM29.6 billion) as well as information and communication services (2023: +RM9.3 billion; 2022: +RM3.0 billion). Malaysia continues to benefit from the ongoing technological megatrends. This is particularly evident with the rising FDI into activities related to data centres and cloud services. Meanwhile, the *manufacturing* sector recorded a smaller inflow of RM2.6 billion (2022: +RM31.6 billion). This can be attributed to the slowdown in global trade activities.

DIA outflows were also lower at RM34.9 billion (-1.9% of GDP; 2022: -RM58.6 billion, -3.3% of GDP). These investments abroad were mainly channelled into the *services* sector, especially finance and insurance and utility subsectors, as well as the *mining* sector. Singapore (37.2% of net DIA), Indonesia (18.7%) and the United States (9.4%) were the major recipients of DIA in 2023.

The portfolio investment account recorded a net outflow of RM45.7 billion (2022: -RM50.6 billion). This owed mostly to the acquisition of debt and equity securities abroad by resident investors. These outflows were partly offset by the turnaround in non-resident investments in Malaysia (+RM6.5 billion; 2022: -RM20.1 billion). This was supported mainly by the acquisition of domestic debt securities.

The other investment account continued to register a net inflow of RM26.0 billion (2022: +RM49.2 billion). This was mainly on account of the non-resident deposit placements into resident banks. Net errors and omissions (E&O) amounted to -RM24.2 billion or -0.9% of total trade during the year (2022: -RM13.6 billion, or -0.5% of total trade).

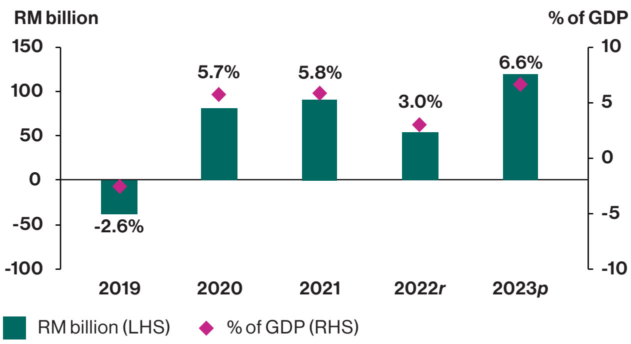
[15] This was partly offset by outflows of FDI mainly in the Netherlands (-RM11.3 billion; -28.5% of net FDI) and the United States (-RM5.0 billion; -12.7%).

Malaysia's international investment position remained favourable

As at end-2023, Malaysia's net international investment position (IIP) recorded a higher net external asset position of RM119.4 billion, equivalent to 6.6% of GDP (end-2022: RM54.2 billion or 3% of GDP). The improvement mainly reflected the increase in external assets by RM180.6 billion in 2023, primarily in portfolio and direct investments. The higher external assets also in part reflected exchange rate valuation effects, particularly due to the weaker ringgit against the USD. This more than offset the increases in external liabilities amounting to RM115.5 billion, mainly reflecting net inflows of FDI and other investments.

The net foreign currency (FCY) external asset position[16] stood at RM1.3 trillion, or 70.4% of GDP (2022: RM1.2 trillion, or 64.5% of GDP). With this position, the ringgit exchange rate depreciation translated to a larger increase in FCY external assets compared to FCY external liabilities.

Chart 4: Net International Investment Position (IIP)



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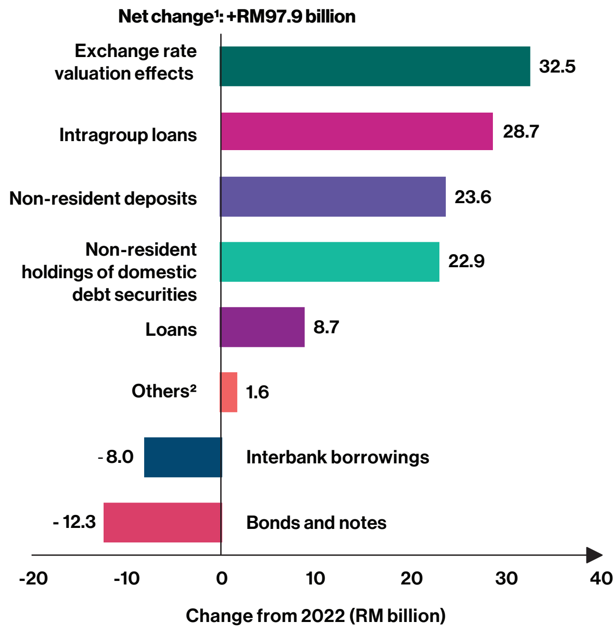
Source: Department of Statistics, Malaysia

Chart 5: Changes in External Debt



[1] Changes in individual debt instruments exclude exchange rate valuation effects. Positive indicates net borrowing or issuance of debt securities.
[2] Comprises trade credits, IMF allocation of SDRs and other debt liabilities.

Note: Figures may not add up due to rounding.

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

[16] As measured by external assets in FCY less external liabilities in FCY.

Malaysia's external debt amounted to RM1,242.5 billion as at end-2023, or 68.2% of GDP (2022: RM1,144.7 billion; 63.9% of GDP). The higher external debt was driven mainly by exchange rate valuation effects following the weakening of ringgit, particularly against the US dollar. The increase in external debt was also attributed to larger intragroup loans and higher non-resident deposits. These were partially offset by net repayment of international bonds and notes, largely by corporates.

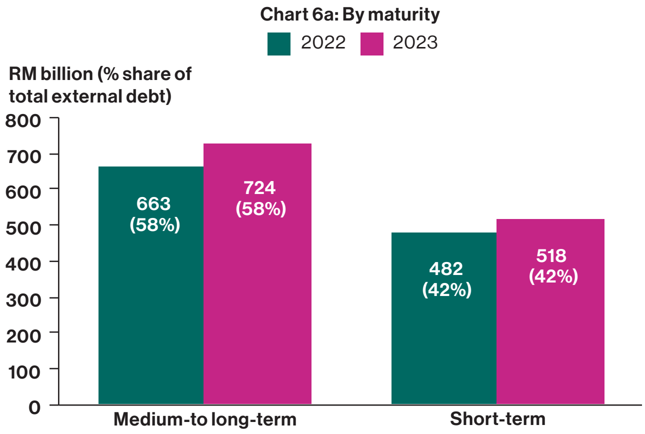
Risks surrounding Malaysia's external debt were well-contained given the favourable maturity and currency profiles. Coupled with BNM's prudential and hedging requirements[17] on corporates and banks, external debt remained manageable. As at end-2023, the external debt-at-risk for corporates[18] and banks[19] amounted RM9.2 billion and RM90.9 billion respectively (2022: RM9.8 billion and RM85.9 billion). Cumulatively, these amounted to 8.1% of Malaysia's total external debt and 19.2% of international reserves (2022: 8.4% and 19% respectively).

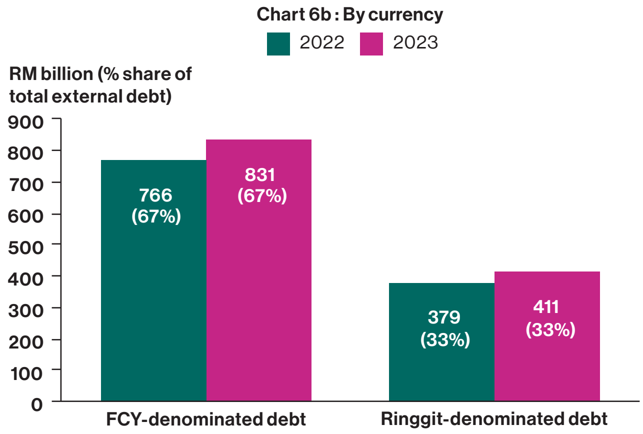
About a third of external debt was denominated in ringgit (33.1%; 2022: 33.1%), and therefore not affected by fluctuations in the ringgit exchange rate (Chart 6b). Out of this ringgit-denominated external debt, 65.5% were in the form of non-resident holdings of domestic debt securities and 16.8% in non-resident deposits.[20] Meanwhile, the remainder of external debt dominated in FCY was largely subject to prudential requirements on liquidity and funding risk management.[21] Moreover, intragroup borrowings[22] accounted for 43% of FCY external debt, which were generally more stable and on concessionary terms.

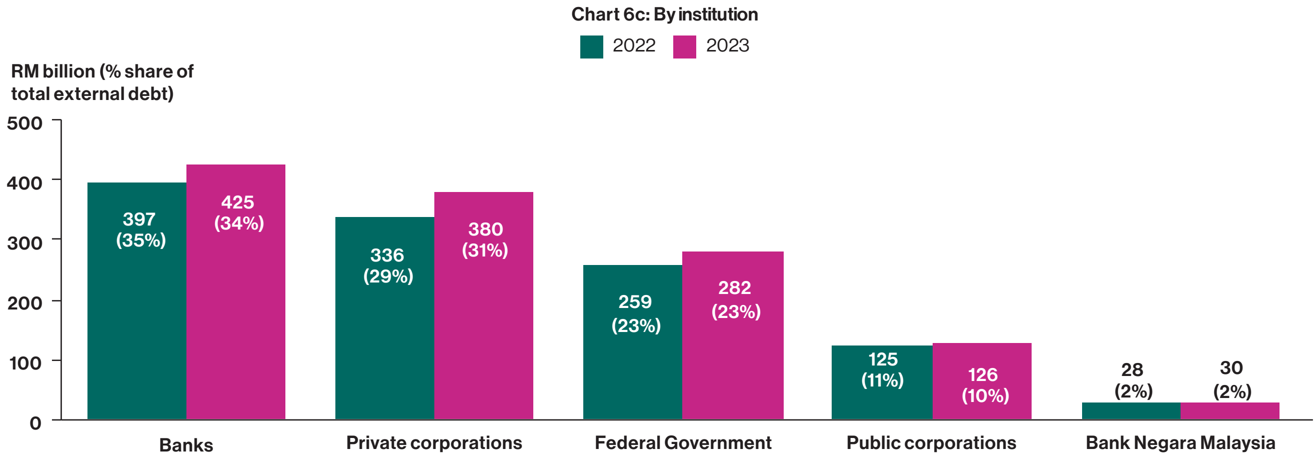
BNM's international reserves amounted to USD113.5 billion (or RM520.9 billion) as at end-2023 (2022: USD 114.7 billion). This was sufficient to finance 5.4 months of imports of goods and services and was 1.0 time the short-term external debt.[23] Notwithstanding this, other means of meeting external obligations remain available, and continue to be strengthened. In particular, the accumulation of FCY external assets by banks and corporates over the years. These assets, particularly the liquid portion amounting to RM873.9 billion,[24] can be drawn upon to meet their short-term external debt obligations of RM518.4 billion without creating a claim on international reserves (Chart 7).

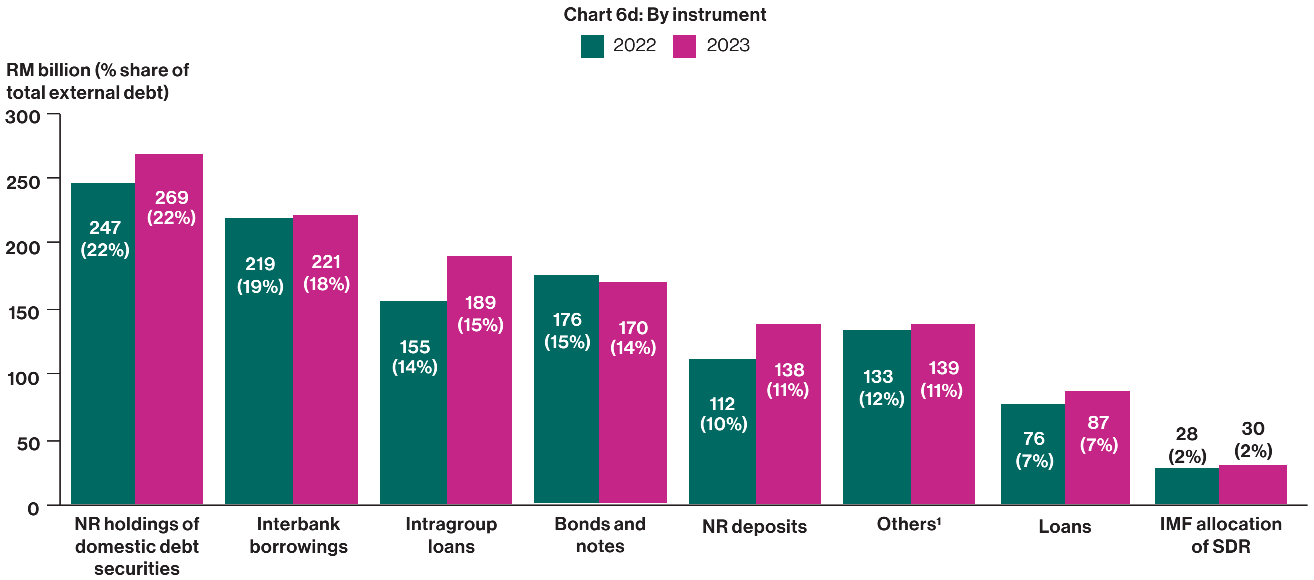
[17] For more details on Malaysia's external debt management, please refer to 'Malaysia's Resilience in Managing External Debt Obligations and the Adequacy of International Reserves' box article in BNM's Annual Report 2018 on external debt.
[18] Based on offshore loans raised and bonds issued by high-risk corporate borrowers.
[19] Refers to the portion of banks' external debt that were more susceptible to sudden withdrawal shocks. These include interbank borrowings (RM63.9 billion), financial institutions' deposits (RM20.7 billion) and other short-term debt (RM6.2 billion) from unrelated counterparties.
[20] Other components of ringgit-denominated external debt include intercompany loan, other debt liabilities, trade credits, loans, interbank borrowings as well as bonds and notes.
[21] Including requirements imposed on banks under local banking regulations.
[22] Comprises intragroup loans and interbank borrowings.
[23] For more details on BNM's international reserves, please refer to 'Building Buffers: Roles and Functions of BNM's International Reserves' box article in BNM's Annual Report 2020.
[24] Corporate and banks' liquid external assets.

Chart 6: Profile of Malaysia's External Debt (% share)







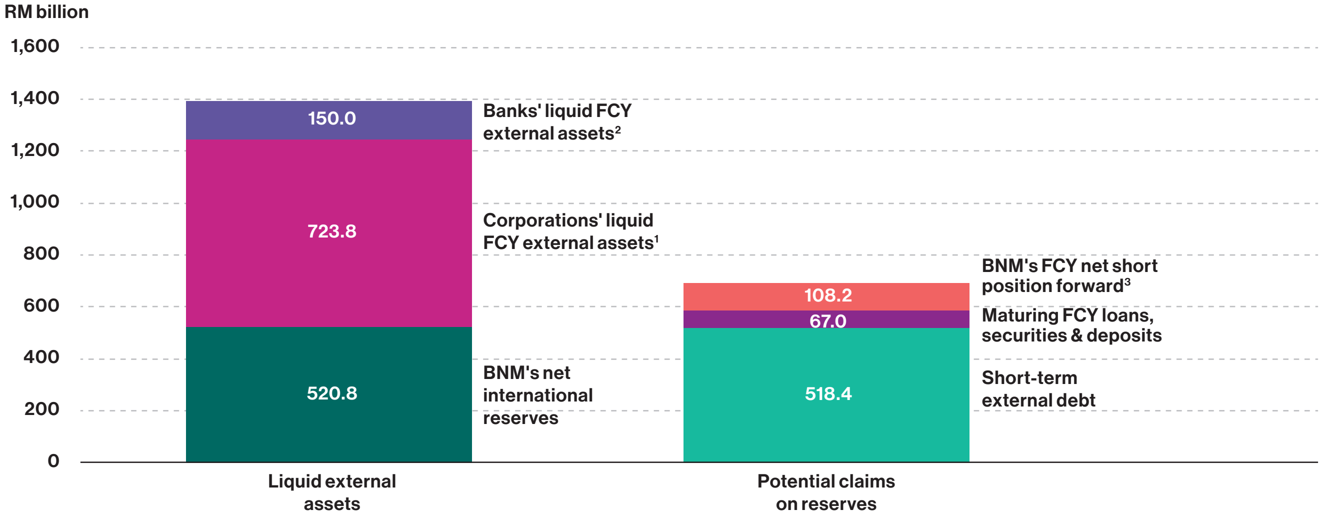


[1] Comprises trade credits and other debt liabilities, such as insurance claims yet to be disbursed and interest payables on bonds and notes.

Note: Figures may not necessarily add up due to rounding.

Source: Bank Negara Malaysia

Chart 7: Liquid External Assets and Potential Claims on International Reserves



[1] Consist of portfolio investments and currency and deposits.
[2] Consist of deposits and interbank placements, bonds and notes and money market instruments.
[3] Including the forward leg of currency swaps.

Note: BNM refers to Bank Negara Malaysia.

Source: Bank Negara Malaysia

Headline and core inflation moderated in 2023

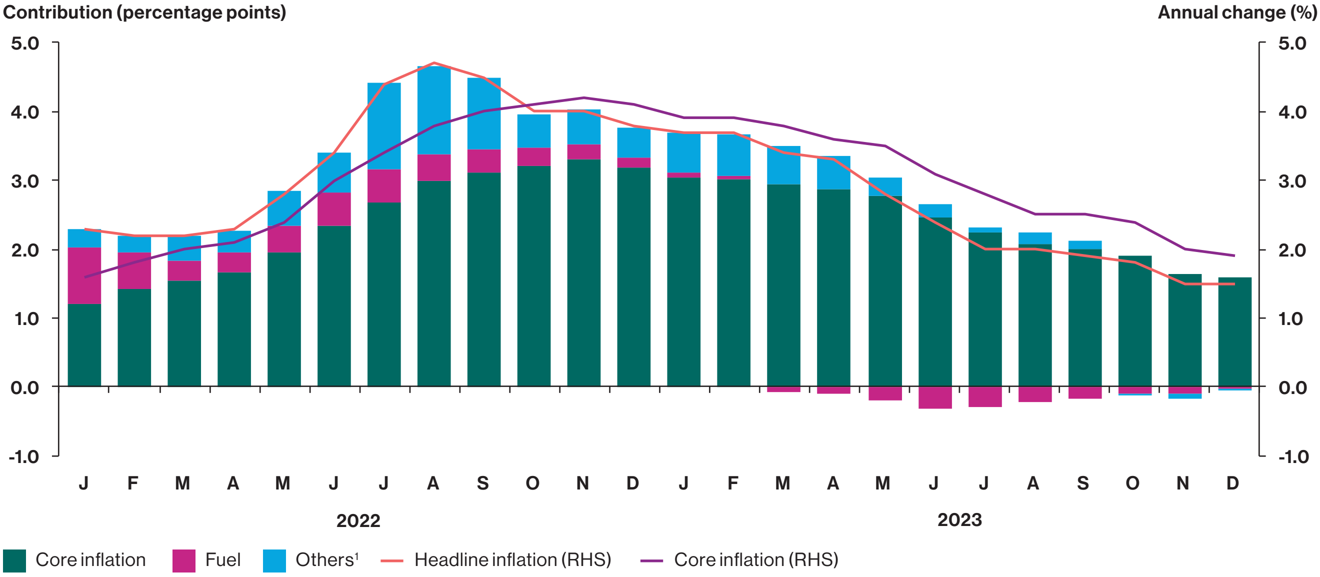
In line with the easing cost environment and stabilising demand conditions, headline inflation moderated in 2023 after reaching its peak in 2022, averaging at 2.5% for 2023 (2022: 3.3%). The moderation was driven by broad-based easing in both core and non-core inflation. In particular, lower inflation for fuel (2023: -1.6%; 2022: 5.1%) as well as food and non-alcoholic beverages (2023: 4.8%; 2022: 5.8%) were among the main drivers contributing to softer headline inflation (Chart 1.16). In 2023, the government began introducing several subsidy rationalisation measures including the revision of electricity tariff for households with higher electricity usage[25] and the removal of chicken subsidy and price controls.[26] However, the implementation of these domestic policies had a manageable impact on inflation. This was on account of the relatively smaller weight of electricity in the Consumer Price Index (CPI) basket (2.7%) and majority of households remained shielded from the impact of tariff adjustments. Meanwhile, the removal of price controls had minimal impact to prices of fresh chicken, which had already trended below the ceiling price prior to its removal amid stable supply conditions.

Despite the sustained US dollar strength against the ringgit, upward pressures on import prices were offset by the broader moderation in the global cost environment. As the effects from global supply chain disruptions and commodity price shocks abated, input costs were lower throughout 2023, as reflected by the Producer Price Index (PPI) which declined by 1.9% in 2023 (2022: +7.8%). The lower producer price inflation alleviated operating costs of firms, contributing to easing consumer prices. The extent of exchange rate pass-through to consumer prices was also partially mitigated by existing price controls and subsidies on key expenditure items such as retail fuel as well as the relatively stable firms' pricing behaviour in Malaysia.[27]

[25] Beginning July 2023, domestic consumers with electricity consumption exceeding 1,500 kWh will be subject to a surcharge of 10 sen/kWh in line with a more targeted approach on electricity subsidy. This is estimated to affect approximately 1% of domestic users.
[26] Subsidies and price controls on chicken were discontinued beginning 1 November 2023.

[27] It is estimated that on average, a 5% change in the RM/USD exchange rate is associated with approximately 0.1 percentage points change in core inflation in the next quarter (short run) and 0.2 percentage points over a year (long run). For further details, please refer to the box article 'Revisiting Exchange Rate Pass-through to Inflation in Malaysia' in BNM's Economic and Monetary Review 2022.

Chart 1.16: Contribution to Headline Inflation by Components



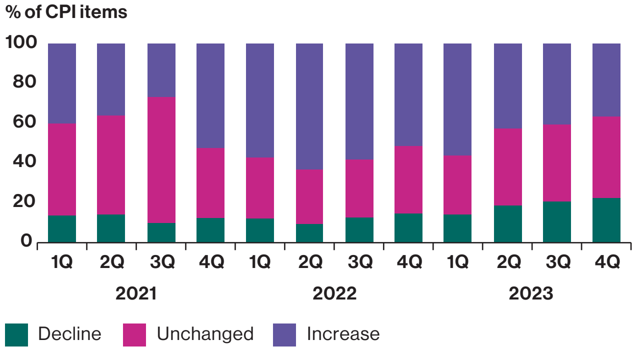
[1] Others include price-volatile items and other price-administered items (excluding fuel).

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

Underlying inflation, as measured by core inflation,[28] averaged at 3% for 2023 (2022: 3%). The pace of disinflation, however, was more gradual as core inflation remained elevated before trending closer to its long-term average (2011–19 average: 2%) in the second half of 2023. The slower core disinflation partly reflected lingering and persistent demand pressures in the economy particularly during the first half of 2023. This was evidenced by persistence in discretionary services such as food away from home (1H 2023: 8.3%; 2H 2023: 5.2%; 2022: 6.7%) and repair and maintenance of personal transport (1H 2023: 10.2%; 2H 2023: 5.7%; 2022: 10.5%). Notwithstanding this, the sustained improvement in labour market conditions did not translate into excessive demand pressures in the economy as wage growth remained outpaced by productivity growth.

Price pressures were broadly less pervasive during 2023, notwithstanding intermittent periods of higher pervasiveness which reflected seasonal factors. Overall, the share of CPI items recording monthly price increases trended lower for most of 2023, normalising closer to the long-term average trend (2023: 43.9%; 2022: 57.5%; 2011–19 average: 45.6%) (Chart 1.17).

Chart 1.17: Month-on-Month Price Changes of CPI Items*



* Based on the month-on-month inflation for 125 CPI items at the 4-digit level (average for the quarter).

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

[28] Core inflation is computed by excluding price-volatile and price-administered items.

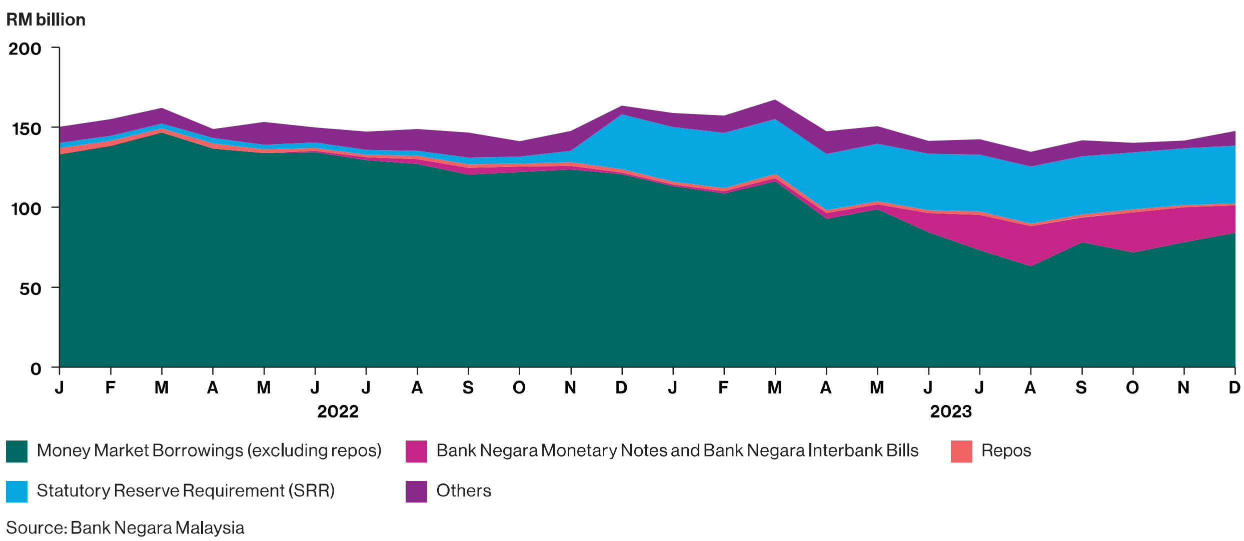
Further normalisation of monetary policy amid resilient domestic growth prospects

In 2023, the Overnight Policy Rate (OPR) was raised by 25 basis points to 3.00%. The adjustment marked the full withdrawal of the monetary stimulus intended to address the COVID-19 crisis in promoting economic recovery. Following successive hikes by a total of 100 basis points in 2022, the Monetary Policy Committee (MPC) judged that it was prudent to pause for the first two meetings in 2023 and take stock of the impact from the previous OPR adjustments. Recognising that monetary policy changes often have a lagged effect on the macroeconomy, it was important to assess the transmission of previous adjustments to economic conditions and closely monitor for any risk of over-tightening.

At the May 2023 meeting, the MPC decided to further normalise the degree of monetary accommodation with a 25 basis points increase in the OPR. The decision was made based on the outlook that domestic growth prospects remained resilient amid elevated core inflation. Although headline and core inflation were projected to moderate over the remaining course of the year, the balance of risks to the inflation outlook were tilted to the upside stemming from any changes to domestic policy including on subsidies and price controls, financial market developments as well as global commodity prices. As the year progressed, the timing of the Government's subsidy rationalisation exercise was also part of the MPC's considerations. Some of these measures were rolled out gradually in the second half of 2023 starting with electricity tariff adjustments for households with higher usage and removal of price controls and subsidies for chicken, but the impact to inflation was assessed to be manageable. Given the steady disinflation progress, the MPC decided to keep the OPR unchanged throughout subsequent meetings.

Domestic monetary and financing conditions remained conducive to financial intermediation. At the system level, liquidity remained sufficient, and the interbank market continued to function in an orderly manner. During the year, BNM increased its issuance of Bank Negara Interbank Bills (BNIB) as part of liquidity management operations to reduce the high overnight balances[29] which had built up in part due to increased preference for shorter-term placements by banking institutions amid the interest rate hike cycle. This was also aimed at enhancing efficiency and price discovery in the interbank market by encouraging more interbank trading activities. Following the adjustments to liquidity operations strategy, interbank trading volume as a proportion of banks' surplus overnight balances had increased by 8%.[30] As of end-December 2023, total banking system liquidity stood at RM147.7 billion (2022: RM163.4 billion) (Chart 1.18). At the institutional level, most banking institutions continued to maintain surplus liquidity positions with BNM.

Chart 1.18: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



Source: Bank Negara Malaysia

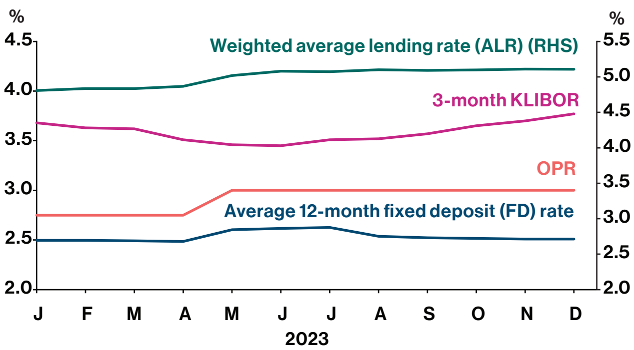
[29] Prior to BNIB issuances, overnight surplus liquidity placed with BNM reached RM101 billion by the end of 2022 and had remained around RM70 billion to RM80 billion since then (2015–19 average: RM39 billion).

[30] Based on the period between August 2023 to January 2024.

Given that market participants had previously priced in expectations of further increase in OPR, interbank rates as reflected by the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) gradually declined from elevated levels earlier in the year following the MPC's decision to pause. The moderation was also partly due to easing of tighter interbank market conditions arising from competition in the corporate deposit market in end-2022. Interbank rates continued to decline on waning market expectations of further OPR increases. Nonetheless, in light of seasonal year-end funding demand, KLIBOR began trending higher from September. This in part reflected actions by banks in taking pre-emptive measures to shore up their liquidity position in anticipation of intense year-end deposit competition.[31]

Notwithstanding the elevated interbank rates towards the end of 2023, spillovers to broader credit conditions were limited. Lending rates as indicated by the weighted average lending rate (ALR) on outstanding loans increased broadly in line with the adjustments in the OPR. Pass-through to average costs of funds had been strong amid ongoing repricing of deposits from previous OPR hikes and continued shift in savers' preference towards longer-term deposits. Nevertheless, translation to lending rates on new loans were more contained, particularly for household loans, owing to competition between banks.[32] In the retail deposit market, the rise in OPR in May resulted in an upward revision to fixed deposit rates. However, some moderation were observed in the second half of 2023 as part of bank's funding strategy to manage cost of funds (Chart 1.19).

Chart 1.19: Policy, Interbank, Fixed Deposit and Lending Rates (at end-period)

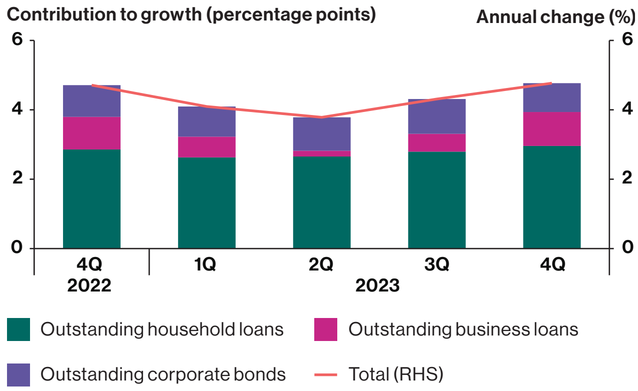


Source: Bank Negara Malaysia and Bloomberg

Continued flow of credit to the private non-financial sector

Financing activities remained broadly sustained in 2023, in line with the pace of domestic economic growth. The sustained growth in credit to the private non-financial sector (4.8%; 2022: 4.7%) was driven by higher growth in outstanding loans[33] (4.9%; 2022: 4.7%) while outstanding corporate bonds expanded at a more moderate pace (4.2%; 2022: 4.6%) (Chart 1.20). Despite some moderation in business loan growth in the first half of 2023, outstanding loan growth improved in subsequent quarters as business outlook gradually improved.

Chart 1.20: Credit to the Private Non-Financial Sector

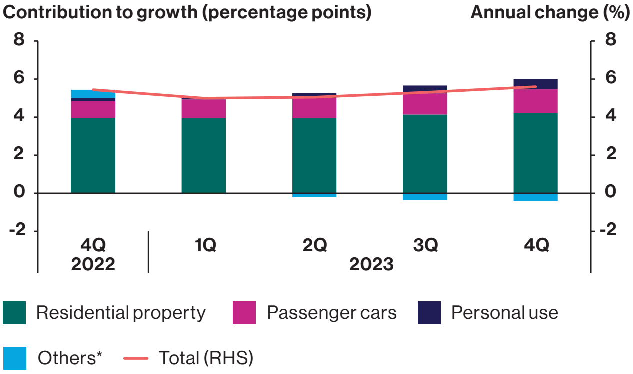


Source: Bank Negara Malaysia

The household segment remained the key driver of loan growth, with outstanding household loans growing at 5.6% (2022: 5.4%) (Chart 1.21). Loan growth was sustained across key purposes, particularly for the purchases of houses and cars, as credit demand was supported by steady employment and wage growth. In addition, government incentives including the extension of stamp duty exemption for first time homebuyers under the Home Ownership Programme also continued to provide support for household loans. Even as the OPR had returned to its pre-pandemic level, the repayment capacity of households remained sound. This was reflected by the sustained growth in loan repayments (13.8%; 2022: 19%) in tandem with the pace of disbursements (13.7%; 2022: 22.1%).

[31] Beginning early 2024, 3-month KLIBOR had since eased to 3.56% as of 29 February 2024 (end-2023: 3.77%).
[32] Following the cumulative 125 bps increase in the OPR, average lending rates on new loans increased by 103 bps for households and 127 bps for businesses (data as at end-December 2023).
[33] For the purpose of the Economic and Monetary Review 2023 publication, the figure on outstanding loans reported here under credit to the private non-financial sector also includes loans to households extended by major non-bank financial institutions (NBFIs). This is in addition to the sum of outstanding business and household loans extended by banks and development financial institutions (DFIs).

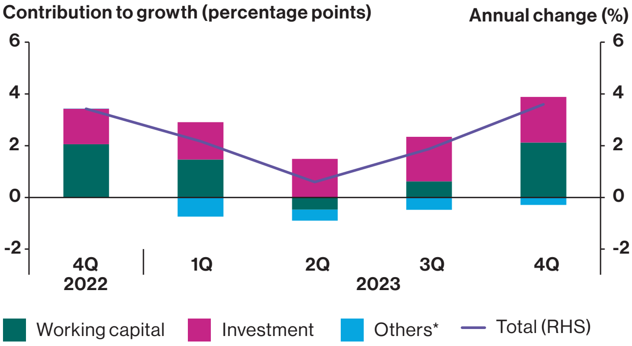
Chart 1.21: Households - Outstanding Loans by Purpose



* Includes purchase of non-residential property, securities, credit card and others.

Source: Bank Negara Malaysia

Chart 1.22: Businesses - Outstanding Loans by Purpose



* Includes purchase of securities, credit card and others.

Source: Bank Negara Malaysia

For businesses, outstanding loan growth moderated in the first half of 2023 before improving to 3.6% (2022: 3.4%) by end-2023 (Chart 1.22). The moderation was driven mainly by slower growth in working capital financing among non-SMEs. The slowing loan growth momentum was more pronounced for the export-oriented sector, in line with the decline in exports amid weaker external demand conditions. Nonetheless, loan growth in the small and medium enterprises (SMEs) segment and disbursements for investment-related loans remained forthcoming. Despite softer loan growth among non-SMEs, fund-raising activities in the corporate bond market remained broadly sustained with RM90 billion of issuances (2022: RM120 billion[34]) recorded throughout 2023 amid favourable conditions as reflected by narrowing bond spreads, in particular, for high quality issuers.

Overall, credit conditions remained supportive of the financing needs of households and businesses. This was underpinned by forthcoming credit supply with stable loan approval rates while banking institutions continued to adopt prudent lending standards. More broadly, financing support in the form of BNM's targeted funds for SMEs, credit guarantees, debt restructuring and advisory arrangements remained available to ensure continuous flow of credit to the economy.

[34] Excluding a single large issuance in the construction sector in December 2022, gross corporate bond issuances would have amounted to RM95 billion in 2022, comparable to RM90 billion in 2023.

Underlying Inflation at its Core

Introduction

Headline inflation may not always reflect the underlying path of prices in the domestic economy. This is because the CPI basket includes items which may experience temporary price volatility due to short-lived shocks such as supply chain disruptions or geopolitical events. This makes it difficult to discern the underlying 'signal' of inflationary pressures using headline inflation alone.

At the same time, it is crucial for central banks to be able to monitor this underlying trend of inflation to guide monetary policy, apart from other factors. Interest rates are a blunt tool that affects the economy as a whole and cannot meaningfully influence changes in individual relative prices,[1] which reflect demand and supply conditions for specific items. As such, monetary policy primarily focuses on managing broad-based risks which affect price stability over the medium-term horizon rather than reacting to temporary price movements which affect a small subset of items. This motivates the use of underlying inflation measures to identify the more persistent trend of inflation which matters for monetary policy considerations.

This article provides an update on underlying inflation measurements used by Bank Negara Malaysia (BNM), as previously detailed in the 2008 BNM Annual Report box article '*Core Inflation: Measurements and Evaluation*'. The article explains how underlying inflation plays a critical role in guiding monetary policy. It delves into how underlying inflation is disentangled from temporary price shocks by analysing various estimation methods, as well as the importance of having a nuanced reading of the data so that monetary policy is appropriately calibrated in line with medium-term price stability.

What is underlying inflation and how is it measured by central banks?

Conceptually, underlying inflation cannot be directly observed and must be estimated by filtering out the transitory and idiosyncratic elements from headline CPI inflation.

There are various methods of estimating underlying inflation, which can be grouped into three broad categories: permanent-exclusion-based measures, statistical-exclusion-based measures and model-based measures (Banbura et.al., 2023). Generally, all these measures aim to remove short-term volatile CPI components to reveal the underlying trend in the general price level, which corresponds to macroeconomic factors, such as excess demand or tightness in the labour market. Such factors can generate more widespread and persistent inflationary pressure (Banbura et.al., 2023). These are the price conditions that are most responsive to changes in interest rates.

1 Relative price movements reflect the price changes of individual items or segments in the CPI basket, which may be driven by idiosyncratic factors rather than reflecting broader trends affecting the general price level.

Table 1: Definitions of Key Underlying Inflation Indicators Monitored by Bank Negara Malaysia

Estimation method	Measure	Definition
Permanent-exclusion-based measures	CPI excluding fresh food and energy; CPI excluding fresh food and price-administered items	Excludes items which are known to be more volatile in nature, or where price movements typically reflect temporary, item-specific factors.
Statistical-exclusion-based measures	Trimmed mean	Excludes items with the highest and lowest annual change each month (e.g. top and bottom 15% of the weighted distribution of annual CPI price changes).[1] The excluded items can change over time.
	Weighted median	Retains the item located at the mid-point of the weighted distribution[1] of annual CPI price changes each month.
	Double weighted	Assigns a lower weight to highly volatile CPI items and more weight to items that are less volatile.
Model-based measures	Common inflation	Captures the 'common' co-movement of the prices of goods and services across the CPI basket.
	Supercore inflation	Weighted aggregated index of CPI items with statistically significant relationship to economic slack,[2] as measured by the output gap.

[1] Under the trimmed mean method, 125 CPI items are arranged in ascending or descending order based on their weighted annual CPI change. The trimmed mean measure then excludes the items within the top or bottom 15% tails of this distribution. Similarly, the weighted median measure retains the item at the mid-point of this distribution.

[2] Refers to the amount of resources in the economy that are not being utilised, such as idle capital inputs or unemployed persons, due to insufficient demand relative to what the economy is capable of producing (Source: ECB).

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

In the official compilation by the Department of Statistics, Malaysia (DOSM), core inflation is measured as a permanent-exclusion-based measure of CPI. It permanently excludes specific CPI categories such as fresh food and price-administered items.[2] Similarly, for our published forecast of core inflation, BNM uses the permanent-exclusion-based measure.[3] Statistical authorities typically favour publishing permanent-exclusion-based measures of underlying inflation as they are relatively easy to compute and understandable by the public. However, it should be noted that there is no singular best measure of underlying inflation. Each method has its own set of strengths and weaknesses. Analysing the various measures holistically can reveal different features of the underlying price trends, allowing for a more nuanced picture of the inflationary environment at hand.

What can the various measures tell us about underlying inflation dynamics in Malaysia?

Permanent-exclusion-based measures exclude a certain fixed set of items where prices tend to be more volatile and idiosyncratic, such as energy or fresh food. By doing so, these measures are meant to capture the more persistent trend in inflation. However, as the choice of excluded items is fixed, it is still susceptible to idiosyncratic trends in the retained CPI items, particularly those with large weights. For example, food-related items[4] make up close to 30% of the core CPI basket. Their prices are influenced by factors such as global commodity prices and weather conditions. During times when the prices of these items diverge from broader core CPI prices, this could distort the signal of underlying inflation.

Additionally, while most countries compile some measure of core inflation based on permanent-exclusion-based methods, the exact choice of excluded items may differ across countries. This affects cross-country comparability.

[2] These include price-controlled food, alcoholic beverages and tobacco, utilities and energy, and transport services. In total, core CPI items have a weight of 73.7% of the overall CPI basket with the excluded components taking up a 26.3% weight. (Source: DOSM CPI Monthly Report, page 126). From January 2024, DOSM CPI data has been updated with new consumption weights based on Household Expenditure Survey (HES) 2022 and classifications based on Classification of Individual Consumption According to Purpose (COICOP) 2024. The analysis in this article are based on the previous conventions used from 2018-23.

[3] BNM's official economic forecasts are typically communicated during the release of its Economic and Monetary Report in March of each year, though the projections are periodically updated during the year.

[4] This includes food away from home, selected food at home, non-alcoholic beverages and expenditure in restaurants and cafes. Together, these categories make up a combined weight of 29.2% of the core CPI basket.

Table 2: Choice of Items Excluded from Headline CPI Basket to Form Core CPI Basket

Countries	Excluded items
US (Core CPI)	• Food – food at home, food away from home • Energy – energy commodities, energy services
UK (Core CPI)	• Food • Energy • Alcohol and tobacco
EU (Core HICP)	• Energy • Food • Alcohol and tobacco
Japan (Core CPI)	• Fresh food
Philippines (Core CPI)	• Food • Energy-related items
Malaysia (Core CPI)	• Fresh food • Price-administered items
Indonesia (Core CPI)	• Volatile food • Price-administered items
Singapore (Core CPI)	• Accommodation • Private road transport
Thailand (Core CPI)	• Fresh/raw food • Energy

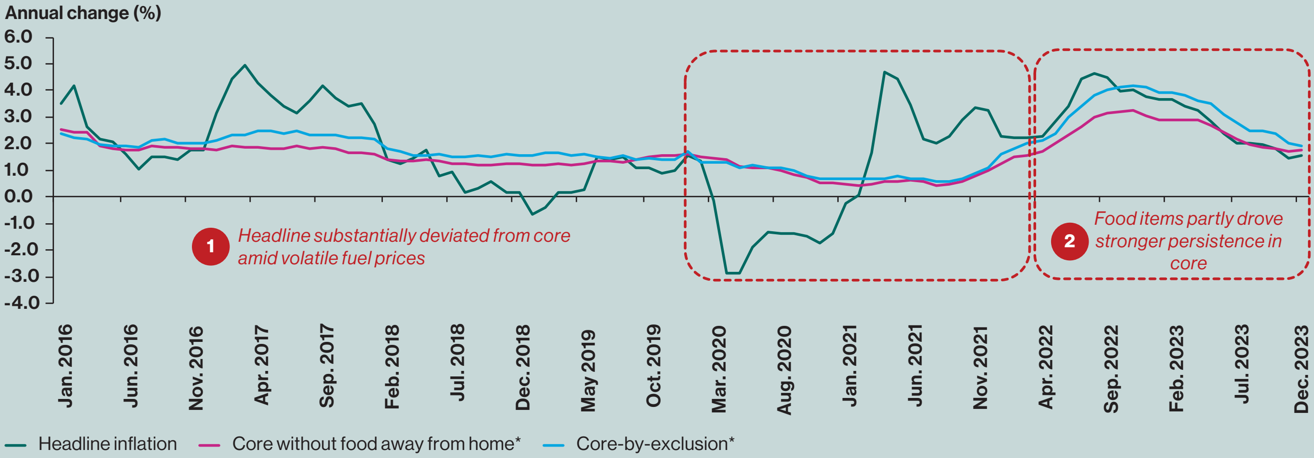
Source: Central bank websites and national statistical agencies

Case Study 1: Malaysia's experience through the COVID-19 pandemic (2020–23)

Permanent-exclusion-based measures (henceforth referred to as 'core-by-exclusion') are able to isolate items that are well known to be volatile outliers within the CPI basket. Fuel is a clear example of this.

- From Chart 1, there was a large divergence between headline and core inflation when global oil prices fell sharply and subsequently recovered in 2021. While core-by-exclusion remained relatively stable, headline inflation surged largely due to fuel inflation. This was driven by short-term shocks to crude oil prices, which were highly volatile due to uncertainties arising from global movement restriction measures during the pandemic.

Chart 1: Headline and Core Inflation



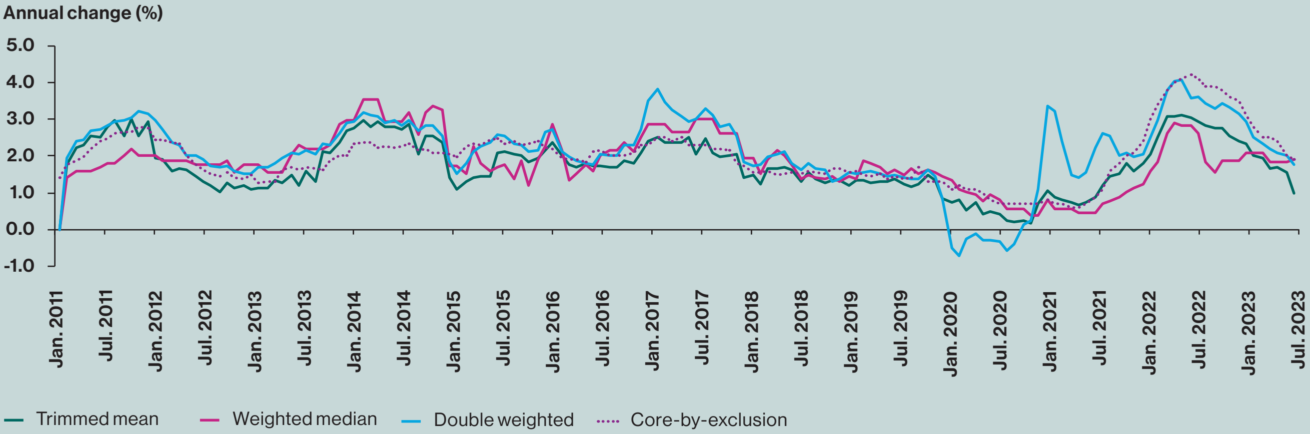
*Excludes the estimated direct impact of tax policy changes.

Source: Bank Negara Malaysia estimations based on Department of Statistics, Malaysia

- However, core-by-exclusion remains heavily influenced by movements in individual CPI categories such as food[5] – which may in turn be largely driven by idiosyncratic supply factors. This may obscure the underlying price trend. When food away from home is filtered out, we can see that it contributed around 0.6ppt to 1ppt to core inflation from June 2022 to October 2023 (Chart 1: Core by exclusion vs Core without food away). This indicates that the outlook for core-by-exclusion is highly sensitive to movements in food prices (particularly food away from home), despite fresh food and administered food items being excluded. This also suggests that some idiosyncratic shocks which spur large movements in food prices would also distort core-by-exclusion. Going forward, the planned rationalisation of subsidies and price controls on food items could potentially exert material cost-push pressure to core CPI inflation.

Statistical-exclusion-based measures (Chart 2) remove price-volatile outliers on a time-varying basis. For example, trimmed mean inflation simply excludes the top and bottom 15% of price movements[6] in the CPI basket during a given period in its aggregation of inflation. This can be advantageous as it is agnostic on the exact components that are excluded every month, but consistent on the treatment of outliers (i.e. always the tails of distribution). Measures like trimmed mean and weighted median can offer more precise estimations of underlying inflation during periods with significant outliers. This is because they rely on rule-based criteria rather than discretion-based choices in the exclusion of CPI items.

Chart 2: Core Inflation (Permanent-Exclusion-Based Measure) and Statistical-Exclusion-Based Measures of Underlying Inflation



Note: All the measures exclude the estimated direct impact of tax policy changes.

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

Unlike permanent-exclusion-based measures, statistical-exclusion-based measures can identify and omit isolated price fluctuations in typically stable items. For example, motorcars are a typically stable component within the core CPI basket, but experienced a negative idiosyncratic price movement in June 2020 (month-on-month change: -1.5%) following the implementation of tax exemptions on motor vehicles. This was omitted in statistical-exclusion-based measures but not in permanent-exclusion-based core inflation.

However, to its disadvantage, it is difficult to effectively communicate trends in statistical-exclusion-based core inflation to the public. Namely, the changing set of excluded items from one period to another could pose interpretation challenges, as they may not provide a consistent explanation for the drivers of relative price movements.

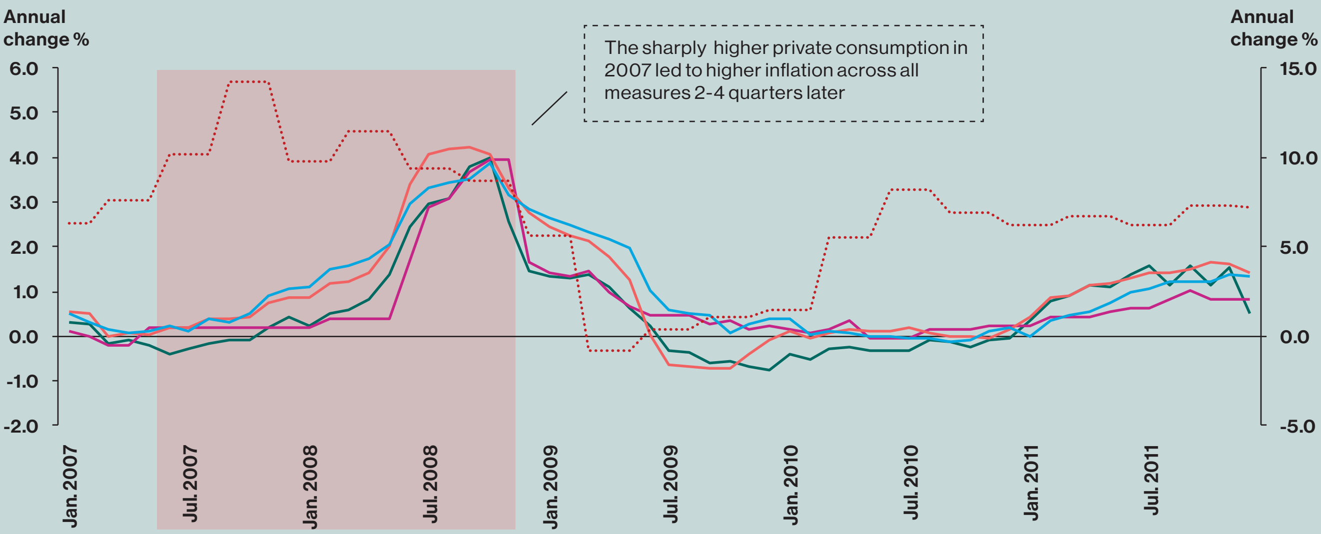
[5] Includes items such as food away from home, rice, bread and bakery products, milk and biscuits.
[6] Items at the tails are deemed to have higher volatility and are outliers as compared to the price movements of the majority of items.

Case study 2: Comparing Malaysia's experiences during the global financial crisis (2007–11) and COVID-19 (2019–23)

Comparing the three statistical-exclusion-based measures in the period around the global financial crisis (2007–11) and the COVID-19 period (2019–23), it can be observed that their movements typically show similar trends but at times deviate from permanent-exclusion-based core inflation. Contrasting these measures may provide us with a more nuanced understanding about the underlying inflation dynamics at play.

- For the global financial crisis (GFC) period (Chart 3), underlying inflation as measured by core-by-exclusion and all three statistical-exclusion-based measures showed similar trends. An increase in the first half of 2008 can be seen across all measures, following the strong demand pressures mainly from high real private consumption growth and exacerbated by the knock-on effects from fuel price shocks. This signals that demand pressures generated broad-based impetus to underlying inflation. Thereafter, all the measures declined in line with the sharp contraction in demand amid the global financial crisis, and to some extent, the reversal of the high energy prices. These dynamics reflect that the inflationary pressure was broad-based, and the underlying factor (i.e. excess demand coinciding with high costs) affected all CPI items, a trend captured by both statistical-exclusion-based and core-by-exclusion measures.

Chart 3: GFC period: Inflation Deviation from 5-year Average (2003–07)



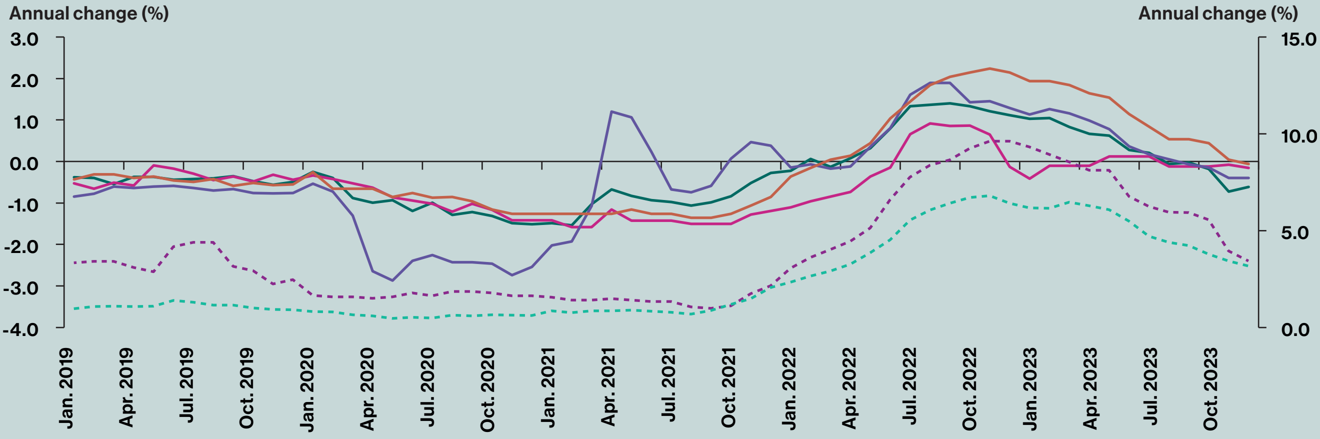
* Excludes the estimated direct impact of tax policy changes.

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

In contrast, in 2022–23 (Chart 4), core-by-exclusion and statistical-exclusion-based measures showed diverging trends. As explained earlier, the higher and more persistent trend of core-by-exclusion partly reflected the large weight of food-related items, which experienced more durable price pressure compared to the rest of the CPI basket. As some of these movements are outliers to the overall CPI basket, they are excluded by the three statistical-exclusion-based measures. As a result, the underlying inflation based on these statistical-exclusion-based measures returned to average levels more swiftly than the more conventional core-by-exclusion. This is in line with lower pervasiveness[7] of CPI inflation in 2023, which eased to long-term average levels in the first half of 2023 (Chart 5).

[7] Based on the month-on-month price changes for 125 CPI items at the 4-digit level.

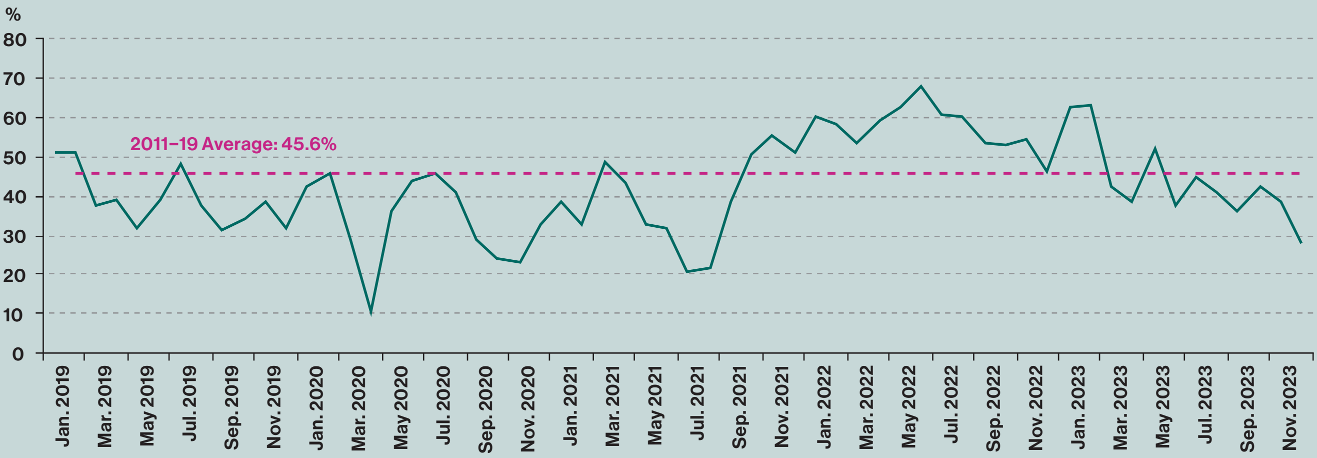
Chart 4: COVID-19 Period: Inflation Deviation from 5-year Average (2015–19)



* Excludes the estimated direct impact of tax policy changes.

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

Chart 5: Inflation Pervasiveness: Share of CPI Items Recording Monthly Price Increase



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

Model-based measures utilise relationships from economic theory to capture the persistent aspect of inflation more rigorously. These measures use empirical techniques to filter out the transitory component and isolate certain desired features of underlying inflation. In some cases, they aim to more precisely reflect the co-movement of prices or dynamics driven by business cycle developments.

Two notable model-based measures are common inflation and supercore inflation.

Common inflation uses a data-driven approach to isolate the shared trend that drives co-movement in CPI prices, while excluding the impact of sector-specific disturbances. Similar to the other measures, this is another way of capturing the broad price changes driven by macroeconomic factors, such as the strength of the economy or broad-based cost shocks[8]. This method effectively filters out an idiosyncratic component driven by item-specific outliers to the broader inflation trend and provides a clearer signal of the general trend in CPI inflation to inform monetary policy.

(For more details refer to the Second Quarter of 2023 BNM Quarterly Bulletin box article '*Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia*').

- **Methodology**: A dynamic factor model[9] is used to estimate the common component from the individual inflation rates of 125 disaggregated CPI items.[10] Each inflation series is separated into a common and an idiosyncratic component, which is then aggregated, forming the common inflation[11] and idiosyncratic inflation series.

Case study 3: Malaysia's experience with common and idiosyncratic inflation (2011–23)

Observable increases in common inflation often coincide with periods of strong real economic growth and pronounced cost pressures, as seen in 2011 and 2022. This observation underscores the close relationship between common inflation and economy-wide factors, with the sensitivity of common inflation especially heightened during shifts in aggregate demand conditions. The recent rise in headline inflation following the recovery from the COVID-19 pandemic was primarily driven by the common component, which contrasted with historical instances where fluctuations in headline inflation were mainly fuelled by idiosyncratic shocks (Chart 6). In 2022, the increase was driven by the combination of global cost factors and the rebound in domestic demand, as the country eased containment measures. This affected a broader range of consumer prices, resulting in a swift uptick in common inflation.

Although common inflation captures broad-based price shocks, it is unable to isolate whether the shocks are driven by cost factors or cyclical demand conditions – given that it is constructed based on co-movements in CPI prices regardless of the source of price shocks.

Supercore inflation,[12] like the permanent-exclusion-based core inflation measures, excludes components where price movements have a lesser bearing on monetary policy. Notably, it draws an explicit link to macroeconomic conditions by constructing a narrower core-by-exclusion index which only retains CPI items which exhibit a significant relationship with economic slack. This allows the measure to more effectively gauge the strength of demand pressure on inflation.

- **Methodology**:[13] Based on a linear regression of disaggregated CPI items, we retain items that exhibit a statistically significant coefficient of the output gap, after controlling for other cost factors. Overall, around half of the core CPI basket, by weight, are sensitive to the output gap. These items are mainly services such as food away from home and rental.

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8 This differs from typical supply shocks which are transient and affect a smaller subset of prices. In particular, it refers to episodes whereby cost shocks induce higher input prices across a wide variety of consumer items. For example, the multiple cost shocks in 2022, arising from global value chain disruptions, higher commodity prices and exchange rate pressures affected a large proportion of items across the CPI basket.

9 Following Nir et al. (2021), a dynamic factor model is used to estimate the common component based on 125 monthly ex-tax inflation series from January 1991 to June 2023.

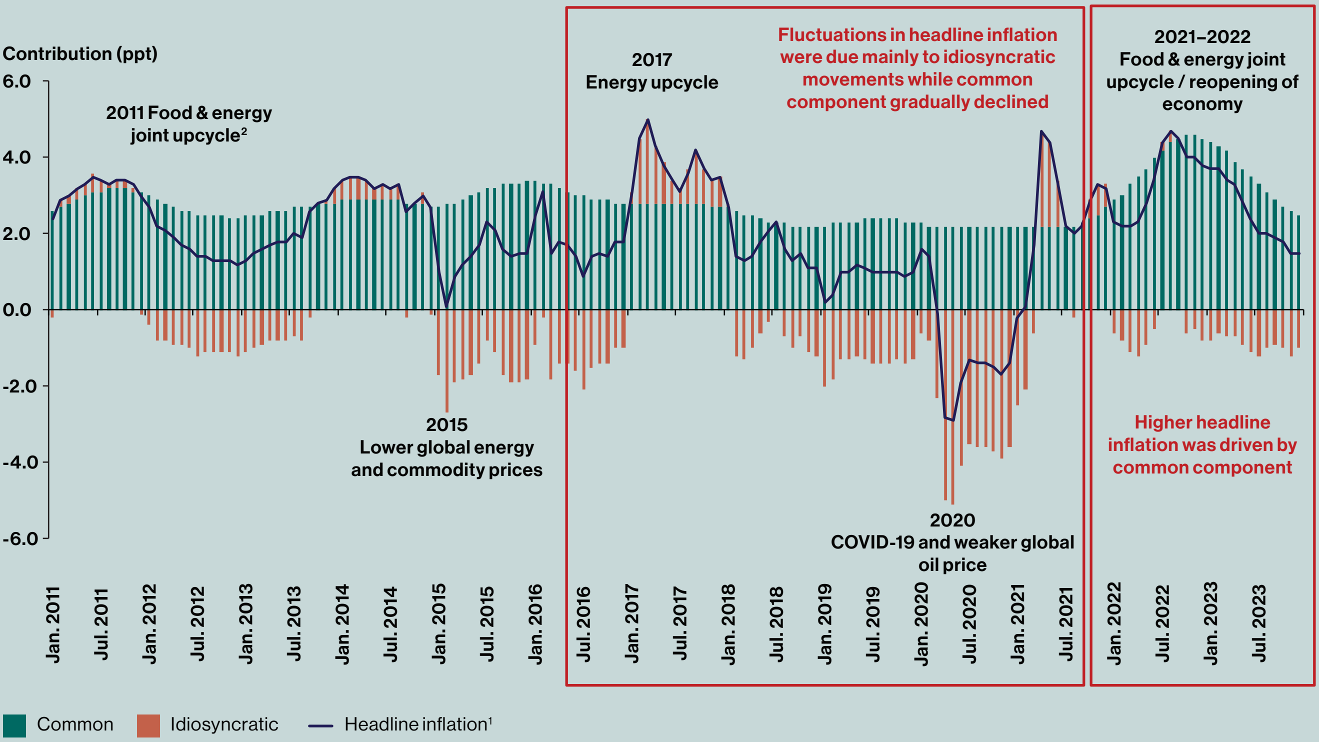
10 At the four-digit level of granularity, as published by Department of Statistics, Malaysia. The inflation of each individual item has been adjusted to exclude the direct impact of one-off changes in consumption tax policies (GST and SST) in 2015 and 2018.

11 Common inflation is formally defined and calculated as the predicted series obtained from a simple linear regression of the monthly ex-tax headline inflation on an intercept and the common component derived from the dynamic factor model of CPI items.

12 The concept of supercore inflation originated from the ECB, as published in a box article in ECB Economic Bulletin 2018.

13 While similar in concept, BNM's measure of supercore inflation differs in methodology from the ECB, which included items based on comparing the forecast error in a model containing output gap against a univariate autoregressive model.

Chart 6: Decomposition of Headline Inflation[1] by Common and Idiosyncratic Factors



[1] Headline inflation is adjusted to remove the changes in consumption tax policies (GST and SST) in 2015 and 2018.
[2] Upcycle refers to periods when global food and/or energy commodities exhibited year-on-year movements higher than the standard deviation. Global food and energy commodities data are from World Bank Commodity Price Data (The Pink Sheet).

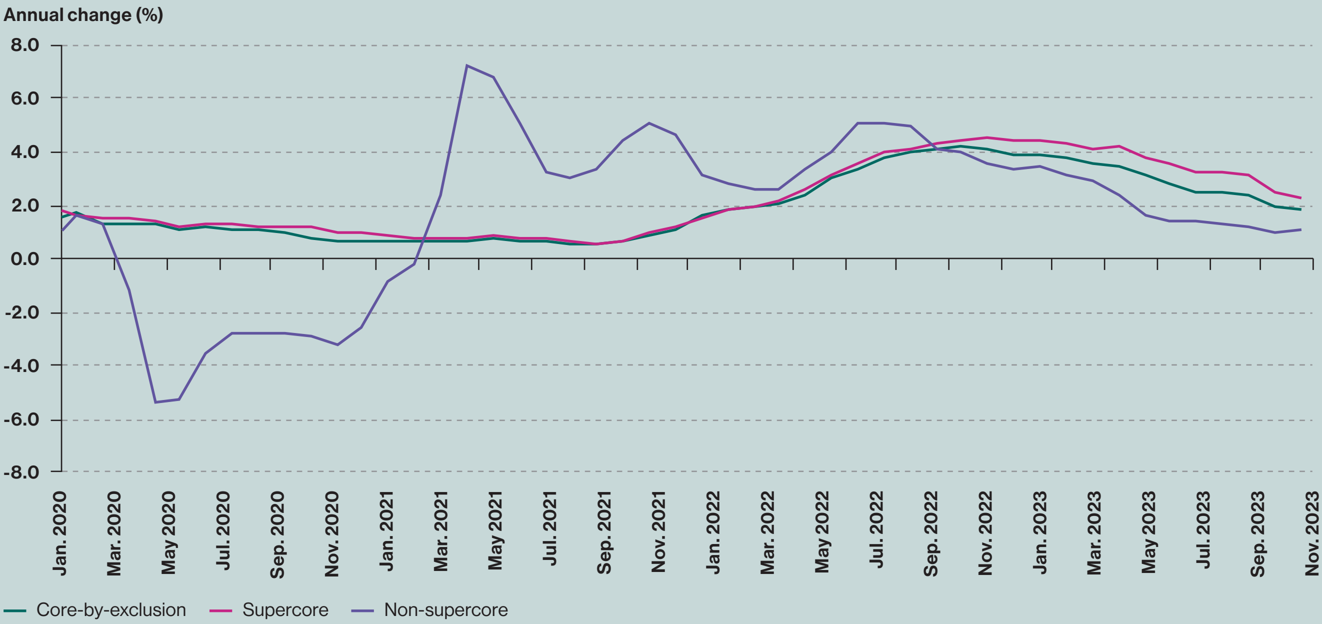
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Case study 4: Malaysia's experience following the post-pandemic reopening (2022–23)

Supercore inflation trended higher in 2021 driven by the rebound in demand pressures following the post-pandemic reopening of the economy.[14] Domestic spending was further lifted by Government stimulus measures and Employees Provident Fund (EPF) special withdrawals. After peaking in February 2023, supercore inflation then showed a slower moderation compared to core-by-exclusion which began to ease after its peak in November 2022 (Chart 7). This trend indicates that the persistence of underlying inflation was partly driven by continued demand pressures in the economy, despite the downward pressure from easing global cost conditions which is reflected to a greater degree in the core-by-exclusion measure.

[14] For more discussion on the rebound in demand pressures post-pandemic, please refer to the 2021 BNM Economic and Monetary Review box article 'An Anatomy of Inflation: Effects from the Prolonged Pandemic'.

Chart 7: Supercore and Core-by-Exclusion Inflation



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

How did monetary policy respond to the signals from various underlying inflation measures?

Combining insights from the various measures of underlying inflation, we can see that robust domestic demand conditions, together with higher costs, played a role in driving higher inflation between 2022 and the first half of 2023. In particular, an uptrend was seen across all of the underlying inflation measures, as presented above, following the post-pandemic reopening of the economy. Moreover, this trend was seen across the CPI basket, rather than affecting just a small subset of items. This dynamic partly reflected the considerations faced by the Monetary Policy Committee (MPC). As the Malaysian economy was on a firmer footing following the COVID-19 crisis, the MPC gradually increased the Overnight Policy Rate (OPR) through five 25-basis point adjustments since May 2022, bringing the OPR to 3.00% in May 2023 from a historical low of 1.75% in 2020. The higher OPR helped to pre-emptively contain the risk of more excessive demand-driven price pressures amid the firm domestic economic recovery.

Since the second half of 2023, the underlying inflation measures had steadily declined, partly reflecting the disinflationary forces at play in line with global experiences, as well as the effect of the OPR adjustments. At the prevailing OPR level, the monetary policy stance was assessed to be consistent with the objective of sustainable economic growth amid price stability.

Conclusion

Measures of underlying inflation offer richer and more diverse perspectives that contribute to a greater understanding of price dynamics in Malaysia. Although the measures may diverge, investigating the reasons for deviations can reveal additional insights into the nature of price dynamics at hand. Coupled with deeper evaluations of broader macroeconomic conditions, this approach allows for a clearer signal of underlying inflation.

It becomes especially crucial to monitor underlying inflation during periods marked by significant and temporary fluctuations in highly volatile components, such as energy and food prices. This helps to gauge the broad direction of inflation in the medium-term. For monetary policy, underlying inflation measures ensure that central banks respond to signals of sustained shifts in the general price level, rather than temporary supply shocks. This ensures that monetary policy is calibrated in an appropriate and timely manner such that price stability in the medium-term horizon is achieved without placing undue pressure on economic activity.

Moving forward, the phased rationalisation of subsidies and price controls by the Government would lead to higher relative prices for selected CPI items, such as energy and food. In view of its price stability objective, the Monetary Policy Committee (MPC) will continually assess the risks of the resulting price pressures becoming more persistent or broad-based. In doing so, continuous evaluation of underlying inflation, using the above methods, would help us to identify the extent of inflationary pressures across the broader CPI basket. This would aid in MPC's assessment of the medium-term outlook for inflation.

Importantly, the impact on domestic inflation will depend on the timing and magnitude of the subsidy rationalisation. This would also be influenced by the accompanying mitigating measures, such as the proposed targeted diesel subsidies to key business segments and disbursement of cash transfers, which are essential to alleviate the impact of higher cost of living to Malaysian households.

As the year progresses, the MPC will rigorously assess the inflation outlook and its implications to the appropriate stance of monetary policy to maintain price stability. In doing so, the various measures of underlying inflation, along with continuous on-the-ground surveillance, will serve as good aids in discerning the direction of general price dynamics going forward.

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Navigating Economic Cycles: Interactions between Monetary and Fiscal Policy

Introduction

The impact of the COVID-19 pandemic was unlike any of the economic shocks experienced before. Many countries imposed strict lockdowns in dealing with the pandemic, which directly impacted incomes and growth. In response, central banks and fiscal authorities swiftly adopted expansionary monetary and fiscal policies. In some countries, the scale of policy stimulus reached unprecedented levels. Central banks reduced policy rates, many to record lows, causing the global median to fall from 1.5% in 2019 to 0.1% in 2021. Governments embarked on massive spending and transfers programmes, widening fiscal deficits from a global median of -0.9% of GDP to -5.1% of GDP during the same period (BIS, 2023). These resulted in an increase in public debt[1] while monetary policy approached its effective lower bound. Some countries, particularly advanced economies, resorted to unconventional policy measures such as quantitative easing and funding-for-lending schemes to further support the economic recovery.

While the synchronised policy action cushioned the economic downturn and facilitated recovery, the subsequent policy normalisation amidst high inflation faced challenges against an environment of uneven economic recovery and public pushback of policy tightening. By end-2022, most central banks in emerging market economies had normalised their policy rates back to pre-crisis levels. However, economies facing higher and more persistent inflation resorted to more aggressive rate hikes.[2] Particularly for advanced economies, this was mostly attributed to the strong consumption activity due to the accumulation of excess savings during the pandemic, bolstered by sizeable fiscal support (BIS, 2023). [3] The task to unwind pandemic-related support also faced challenges from the simultaneous rise in global energy and food prices. For example, the high prices of global commodities warranted targeted support to vulnerable segments particularly those still severely affected by the aftermath of the pandemic crisis,[4] resulting in further increase to the already historically high public debt (IMF, 2022).

The interactions between monetary and fiscal policy are complex given its mutual influence and impact, particularly on inflation, debt and economic growth. The COVID-19 pandemic has shed light on the importance of policy coherence without compromising respective policy objectives and mandates. This article dissects the roles of cyclical macroeconomic policies, namely monetary and fiscal policy: their similarities and differences, synergies and risks in their interactions, as well as implications for structural and financial stability policies. It also draws on Malaysia's experience and concludes with key takeaways in navigating the interactions between the two policies moving forward.

The synergies from monetary and fiscal policy interactions

Policymakers adopt different policies to achieve various macroeconomic objectives such as structural[5] and macroeconomic policies. This article focuses solely on the latter, namely monetary and fiscal policy. While monetary policy has limited impact on long-run growth, the same cannot be said about fiscal policy, as tax and government expenditure can have impact on potential growth.[6] Nevertheless, these policies can be particularly effective at managing short-run macroeconomic fluctuations when deployed in a counter-cyclical manner (Diagram 1). Thus, it is critical to have a coherent conduct of monetary and fiscal policy to avoid the costly damages from sharp boom-bust cycles.

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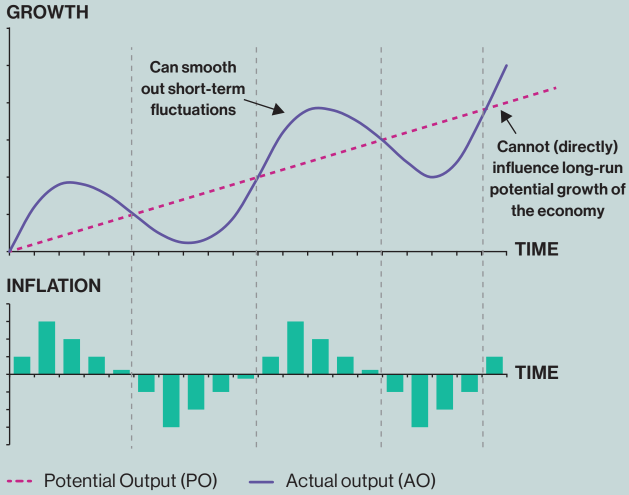
1 Global public debt has risen from 84.9% of GDP in 2019 to 92.4% of GDP in 2022 (IMF Global Debt Monitor 2023).
2 This includes advanced economies such as the US and EU, as well as emerging market economies in Latin America.
3 On top of excess demand, supply-related factors such as supply chain disruptions, logistical bottlenecks and labour shortages contributed to inflationary pressures. The conflict in Ukraine further worsened supply conditions by causing higher energy prices and affecting key industries such as utilities and transportation (WEF, 2022).
4 Over 700 measures were implemented related to revenue (e.g. reduction in excise rate) and expenditure (e.g. subsidies & cash transfers), below-the-line measures (e.g. loans or guarantees to state-owned energy companies) and non-fiscal measures (e.g. export bans) (IMF, 2022b).
5 Structural policies such as industrial, education, and labour policies are deployed to meet longer-term objectives such as increasing the potential output of the economy.
6 While tax and government spending measures can have long-term impact by incentivising or disincentivising certain activities or sectors, this article focuses solely on their short-term counter-cyclical application.

Diagram 1: Role of Monetary and Fiscal Policy



Source: Adapted from Erokhin et al. (2023)

- **Monetary policy:** Broadly, monetary policy tools can be categorised as either conventional or unconventional. Conventional tools such as changes in policy rates (e.g. the Overnight Policy Rate (OPR) in Malaysia) work by influencing the short-term interest rate, based on the outlook and balance of risks to growth and inflation. Beyond that, a set of unconventional tools such as large-scale asset purchase programmes (e.g. quantitative easing, QE) have also been adopted elsewhere. This is more prevalent in some advanced economies which have exhausted the space to deploy conventional tools and face issues surrounding the effective or zero lower bound[7] (BNM, 2021). This involves large-scale purchases of financial assets to lower yields on long-term government bonds and other interest rates (also known as 'flattening the yield curve'), thereby reducing borrowing costs for households and corporates (Bank of England, 2022).

- **Fiscal policy:** Plays a counter-cyclical role via 'automatic stabilisers' and 'discretionary spending'. Automatic stabiliser is a fiscal feature embedded in the design of taxation and expenditure policies. For example, governments would collect less tax (due to lower household and business incomes) and spend more (due to increase in social security claims) during economic downturns. Beyond automatic stabilisers, governments can also influence aggregate demand by using 'discretionary' spending, which can be either procyclical or counter-cyclical in orientation. In counter-cyclical use, government can increase discretionary spending during recessions or reduce them during economic booms (van den Noord, 2000). Examples include measures such as cash handouts, wage subsidies and tax incentives and reliefs to mitigate economic scarring during recession.

In performing their counter-cyclical roles, monetary and fiscal policies interact in two important ways, with various implications:

- **Transmission channels:** Fiscal policy actions can affect monetary policy transmission through government debt issuances to finance fiscal deficits. More specifically, excessive government bond issuances can create distortions in financial markets by driving up yields. This could cause mispricing of other financial assets due the higher returns on this 'risk-free' asset, potentially triggering capital reallocation away from riskier assets. Additionally, the higher yield environment would result in interest rates being higher than levels warranted by the prevailing economic condition. Alternatively, excessive government bond issuances could cause yields to rise on riskier assets, making it expensive for the private sector to seek financing. This is called the crowding-out effect.[8] Conversely, monetary policy could

[7] The effective lower bound is characterised by a point below which policy rate cuts would result in net negative effects to the economy, with commonly cited symptoms including a contraction in lending and economic activity (Brunnermeier and Koby, 2019).

[8] In certain circumstances, where there is a loss of confidence in the fiscal authorities, interest rates could spike up and trigger sell-offs in the financial markets leading to increased volatility.

have an impact on public finances in several ways. Changes in the central bank's policy rate affect yields on new government borrowing, impacting borrowing and debt servicing costs to fiscal authorities (BIS, 2023). Secondly, it can induce larger fiscal multiplier effects, when operating at the effective lower bound (ECB, 2021).[9] The two policies are further intertwined through interlocking balance sheets arising from normal central bank open market operations (namely the purchase of government bonds in the secondary market) and remittances of profits from the central bank's operations (BIS, 2023).

- **Growth and inflation outcomes:** Contingent upon underlying causes and initial conditions, impact to growth or inflation induced by one policy may require a recalibration of policy stance by the other. In a scenario of high inflation and low growth, excessive fiscal expansion could necessitate a more restrictive monetary policy response to curb inflation, potentially negating the intended impact of fiscal policy to growth. Conversely, higher inflation induced by loose monetary policy can positively affect fiscal balances by boosting tax revenue and enlarging fiscal policy space by reducing the value of government debt (Amaglobeli et al., 2023). In the broader experience of advanced economies, progressive government spending and redistributive policies can reverse the decline in the natural interest rate,[10] thereby increasing monetary policy space for central banks constrained by the effective lower bound.[11]

Table 1: Stylised Facts on Monetary and Fiscal Policy

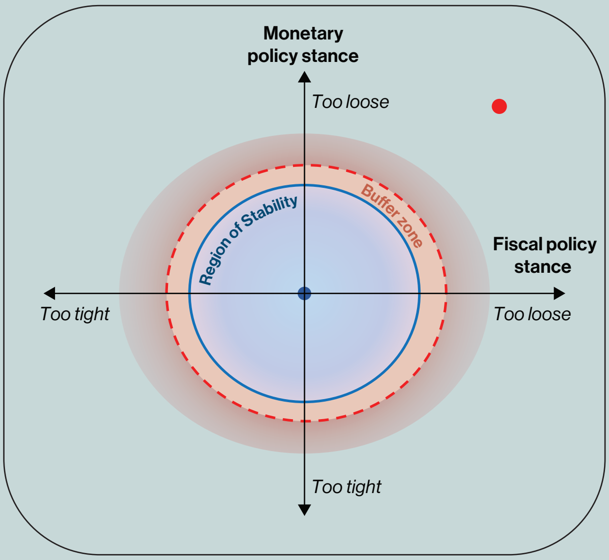
	MONETARY POLICY	DISCRETIONARY FISCAL POLICY[12]
Definition	Involves the use of policy instruments (e.g. interest rates, liquidity operations, etc) by central banks to manage inflation and support economic activity (e.g. growth or employment)	Refers to the use of government spending, taxation, and borrowing to influence the level of aggregate demand, promote growth, and meet various socioeconomic objectives
	SIMILARITIES	
Orientation	Counter-cyclical tools impacting aggregate demand	
Time-horizon	Focused on short-run impact with a timeframe of 12–36 months, although fiscal multiplier impact can persist much longer[13]	
Distributional effect	Pervasive distributional effect on income and wealth; Fiscal policy can transfer resources between sectors and segments while monetary policy can transfer resources between savers and borrowers	
	DIFFERENCES	
Objectives	To control inflation and/or growth by influencing aggregate demand	Influencing aggregate demand and ensuring stability in aggregate supply towards achieving macroeconomic goals (e.g. sustainable growth, employment and price stability)
Transmission mechanism	Occurs through channels of interest rates, asset prices, credit, exchange rate and expectations	Occurs through channels of consumption and investment
Impact	Generally, a blunt tool with broad-based impact	Can be both broad-based or targeted to specific sectors or segments

Source: Staff compilation from Dong, Wei et al (2021), Hopper (2018) & Kopcke et al (2006)

[9] At the lower bound, higher government spending increases expected inflation which subsequently lowers real interest rates. This boosts private spending thereby causing a larger multiplier effect (Christiano et al, 2011).
[10] Refers to the level of interest rate that neither stimulates nor restrains economic growth. The decline in the natural interest rate, attributed to global savings glut (Bernanke, 2005), suggests that policies aimed at reducing aggregate savings could unlock higher aggregate demand and, consequently, facilitate a rise in natural interest rates through inflationary pressures (Michau, 2020).
[11] This occurs via automatic stabilisers and progressive taxation which provide better protection against aggregate or idiosyncratic shocks to economic agents, thereby reducing the need for precautionary savings. Consequently, the fall in supply of total savings will increase the natural rate of interest (ECB, 2021).
[12] Of note, different types of fiscal policies can impact both aggregate demand and supply. However, macroeconomic stabilisation primarily relates to its influence on aggregate demand. Fiscal policies with objectives beyond short-run macroeconomic stabilisation are referred to as structural reforms.
[13] Fiscal multiplier impact can persist up to several years based on state-contingencies (e.g. economic cycle and liquidity constraints) and type of instruments (e.g. revenue and spending measures) (Office for Budget Responsibility, 2013).

The interactions between monetary and fiscal policy create challenges in navigating the policy landscape for both central banks and governments. In the context of policy analysis, the so-called 'Region of Stability (ROS)' provides a framework to understand how different macroeconomic policies affect one another and how the interplay between the two policies could pose risks to the economy (BIS, 2023). Of critical emphasis, ROS is defined by its boundaries, whereby macroeconomic stability is at risk should monetary and fiscal policy operate outside of it (Diagram 2). These boundaries evolve, influenced by factors such as structural changes to the economy (e.g. ageing population) which can shift those boundaries, and cumulative policy choices (e.g. persistently high fiscal deficits) which further stress them. Similarly, prolonged periods of low interest rates could also create financial imbalances and encourage excessive leverage in the economy. Hence, risks from policy interactions may arise, compromising the ability to achieve respective objectives and threatening overall macroeconomic stability. This underscores the need for vigilance in policymaking and a steadfast approach in building adequate policy buffers. Importantly, it emphasises that monetary and fiscal policy cannot be operated in a vacuum, necessitating effective management of the interactions to ensure optimal outcomes.

Diagram 2: Monetary-Fiscal Interactions and Implications Towards the Macroeconomy



● **Operating within the Region of Stability:** A mix of monetary and fiscal policy that is consistent with macroeconomic stability

● **Operating outside the Region of Stability:** Characterised by poorly calibrated policies against prevailing macroeconomic conditions resulting in adverse implications towards financial stability & structural reforms

▶ **Factors influencing the borders of the Region of Stability:**
- Macroeconomic fundamentals
- Structural reforms
- Sustainability of policy trajectory – where neither are excessively loose or tight

▶ **Buffer zone:** 'Safety margins' preventing unraveling of macroeconomic stability

Factors influencing the buffer zone:
- Macroprudential policies
- Confidence

Source: Adapted from BIS (2023)

Understanding and mitigating risks from monetary and fiscal policy interactions

The high degree of interaction between monetary and fiscal policy creates the risk of 'fiscal dominance', whereby monetary policy decisions are unduly subordinated by fiscal considerations (Agur et al., 2022), particularly via public debt vulnerabilities. Importantly, concerns of fiscal dominance can even occur subtly, without direct influence from fiscal authorities, as extremely high government debt levels pose challenges to central banks needing to raise interest rates as it could create financial instability and harm the real economy. For instance, Heinemann and Kemper (2021) argue this to be the case with individual members of the ECB Governing Council, which includes governors of the euro area national central banks (NCB) and the ECB board members. They show that there exists a positive correlation between the dovishness[14] of each member and the indebtedness of the member states they are from.[15] Similar concerns were also raised about central banks in Japan and the United States during the pandemic due to considerations about liquidity and sovereign solvency amidst high government debt levels (Bordo and Levy, 2021).

Beyond fiscal dominance, direct interference and deficit financing by the central bank are more extreme circumstances which significantly impact the conduct of monetary policy. Direct interference entails direct political interference on monetary policy decisions, compromising central bank independence. For instance, political pressure on the Federal Reserve to maintain low interest rates throughout the mid-1960s is cited as a contributing factor of the Great Inflation (Meltzer, 2003).[16] On the other hand, direct financing of fiscal deficits by central banks can occur through direct lending to the government or direct purchases of government bonds by the central bank (i.e. debt monetisation) (Tobias et al., 2021). The outcome is a permanent and continued increase in the money supply, ultimately leading to risks of hyperinflation as observed in Zimbabwe in the early 21st century (Hooley et al, 2021).

Monetary and fiscal policy interactions can also exert implications towards financial stability. Given that monetary and fiscal policy interactions are linked via government debt issuances in financial markets, inconsistent behaviour on either policy can induce financial instability. This is highlighted by the 2022 gilt crisis in the United Kingdom. The unfunded nature of the fiscal package announced by the UK's Chancellor of the Exchequer raised concerns about rising government debt and potential inflation pressures. The subsequent market impact, particularly on UK pension funds, forced the Bank of England to temporarily reverse its balance sheet reduction programme by making temporary and targeted purchases of gilts to restore orderly financial market conditions (Leeper, 2023). This particular case illustrates the interconnectedness of different macroeconomic policies and highlights the importance of policy coherence.

Moreover, monetary and fiscal policy interactions can also affect the prospects for structural reforms. For instance, sound public finance will facilitate more effective reforms taking place as it provides budgetary room to finance mitigating measures and transition plans for those potentially disadvantaged by the reforms (IMF, 2004; Tompson, 2009). In a similar vein, combining reforms with fiscal incentives (e.g. tax cuts or credits) can facilitate or even expedite reforms by alleviating transition and social costs. However, this is conditional upon the fiscal support being targeted, time bound and tied to commitment towards other major reforms (Banerji et al, 2017).

In sum, understanding the risks arising from the interactions between monetary and fiscal policy is critical. Operating within the Region of Stability prevents over-burdening of any single policy in macro stabilisation, mitigates potential imbalances, and avoids hindering the effectiveness of either monetary or fiscal policy. The success in operating within the Region of Stability hinges on two critical factors:

- **Policy conduct:** Monetary policy must be focused on its price stability mandate in supporting other macroeconomic objectives of sustaining growth and financial stability. Fiscal policy should prioritise prudence, utilising fiscal space when needed and rebuilding buffers afterwards to ensure long-term debt sustainability. For both, the respective policy stance relative to the 'neutral' stance[17] is critical to guide its operation in effectively playing the counter-cyclical role.[18]

- **Institutional framework**: A well-defined legal framework safeguards institutional and operational independence while establishing institutional arrangements to facilitate engagement between central bank and fiscal authorities.

[14] Refers to the monetary policy preference for more accommodative or expansionary monetary policy alongside a greater tolerance of inflation, typically characterised by a general preference for lower interest rates. The findings from Heinemann & Kempel (2021) indicate that individuals from highly indebted member states tend to advocate for a more accommodative monetary policy stance.

[15] The Transmission Protection Instrument (TPI) introduced in July 2022 has been highlighted as a potential case of subtle fiscal dominance by Leeper (2023), as it allows the ECB to purchase additional sovereign bonds in response to 'unwarranted' yield increases, which could be viewed as an attempt to influence the bond yields of highly indebted euro countries. Despite never being activated, the TPI functioned as a deterrent against disorderly and unwarranted increases in sovereign spreads and ensured the effective monetary policy transmission throughout the eurozone (Schnabel, 2023).

[16] Refers to the period between 1965 and 1982 in the United States of America characterised by high inflation up to 15%.

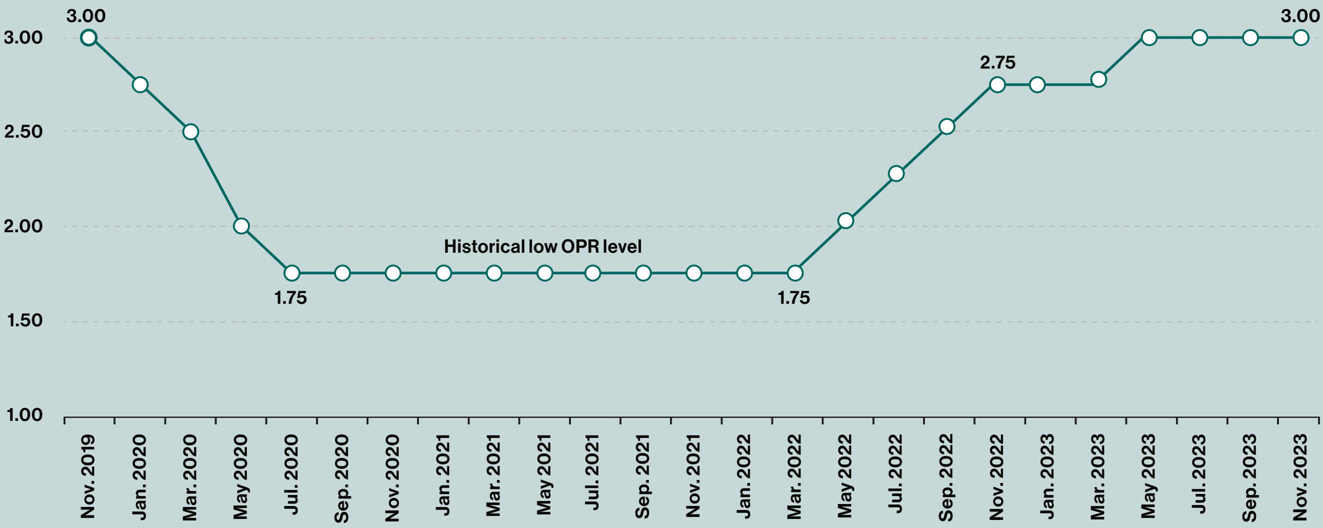
[17] Refers to a policy stance that is neither expansionary (i.e. supportive) and contractionary (i.e. dampening) to the economy.

[18] For fiscal policy, the cyclically-adjusted primary balance (i.e. fiscal balance minus cyclical components and interest payments, adjusted for the output gap) captures the use of 'discretionary' tax and spending in being expansionary or contractionary (Fedelino et al, 2009).

The Malaysian experience

The interaction between monetary and fiscal policy in Malaysia focuses primarily in the areas of macroeconomic stabilisation, debt management and economic development. The recent pandemic-induced recession presented a set of unique and unprecedented challenges to the country and provided us with a rich test case of the policy levers operating within the Region of Stability. Mirroring the global experience, Malaysia's pandemic response saw greater monetary and fiscal policy interventions, which increased the interactions between the two. At the onset, Bank Negara Malaysia (BNM) reduced the Overnight Policy Rate (OPR) by 125 basis points, from 3.00% to a historical low of 1.75% between January and July 2020 (Chart 1), to provide support for economic activity during the unprecedented economic slowdown due to the lockdown. This was supported by a suite of financial stability policies to inject liquidity, facilitate intermediation activities, and ease cash flow pressures among borrowers.[19] Likewise, the fiscal response was also sizeable and wide-ranging, encompassing eight stimulus and assistance packages totalling RM530 billion of both fiscal and non-fiscal measures.[20]

Chart 1: Overnight Policy Rate (OPR, %)



Source: Bank Negara Malaysia

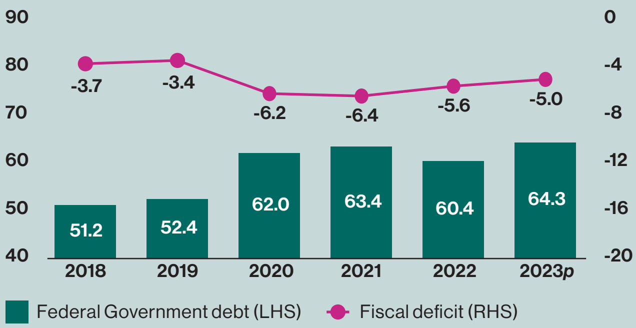
As the economy recovered, BNM's gradual and measured approach to monetary policy normalisation saw the OPR steadily raised from May 2022, returning to the pre-pandemic level of 3.00% by May 2023. Alongside that, financial stability measures shifted from broad-based towards targeted repayment assistance. In parallel, the sizeable increase in government debt from 52.4% of GDP in 2019 to 64.3% of GDP in 2023 necessitated fiscal policy to adopt a less expansionary stance. This is reflected in the gradual fiscal consolidation from -6.4% of GDP in 2021 to -5% of GDP in 2023 (Chart 2). The 2024 Medium-Term Fiscal Framework (MTFF) reinforces this commitment, with an average fiscal balance target of -3.5% of GDP between 2024 and 2026. Additionally, the recently approved Public Finance and Fiscal Responsibility Act (FRA)[21] imposes a maximum limit of federal government debt at 60% of GDP to ensure debt sustainability. Moving forward, a successful implementation of a more targeted approach to subsidies will further support fiscal consolidation efforts. These sets of policy actions proved to be coherent, as an over expansionary fiscal stance might necessitate a contractionary monetary policy stance to contain inflationary pressures, potentially negating the intended impact to growth. Importantly, this policy combination facilitated a strong economic recovery, culminating in a robust real GDP growth in 2022 and 2023 of 8.4% and 3.7% respectively, with inflation moderating from its peak of 4.7% in August 2022 to 1.5% by December 2023.

[19] These include allowing banks to temporarily operate below the minimum liquidity coverage ratio of 100%, reduction of the Statutory Reserve Requirement (SRR) from 3% to 2% and the 6-month automatic loan repayment moratorium. Additionally, financial institutions were temporarily allowed to utilise the Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) for the SRR compliance.

[20] This was partly financed by the establishment of the COVID-19 Fund under the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020. Notable measures include withdrawals from EPF savings, cash transfers (e.g. Bantuan Prihatin Nasional and Bantuan Khas COVID-19), wage subsidy programme (WSP), and the implementation of small-scale projects (Ministry of Finance, 2022).

[21] The Act introduces four fiscal rules: A fiscal deficit ceiling at -3% of GDP; federal government debt limit at 60% of GDP; capping government guarantees at 25% of GDP, and a minimum annual development expenditure of 3% of GDP.

Chart 2: Federal Government Debt and Fiscal Deficit (% of GDP)



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Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

In playing its counter-cyclical role and managing risks of heightened interactions during the pandemic, two key elements guided BNM's approach namely clarity of mandates and a robust institutional framework. Firstly, the Central Bank Act of Malaysia Act (2009) establishes BNM's mandates and governs its relationship with the Government. Notably, the Act stipulates the principal object to promote monetary and financial stability conducive to sustainable growth of the Malaysian economy whilst providing advisory on economic and financial stability matters to the Government.[22] Secondly, in ensuring the effective delivery of this mandate, two key safeguards are stipulated within the Act among others. The Act[23] formally assures the independence of BNM in monetary policy conduct, which is vital in ensuring monetary stability.[24] The Act[25] also imposes strict limits on BNM's ability to provide financing to the Government, defined by specific parameters of duration, limits, and permitting circumstances.

Robust institutional arrangements facilitated engagement and policy alignment between BNM and the Government. As a member of national-level policy platforms such as the Economic Action Council (EAC) and the Fiscal Policy Committee (FPC), BNM plays a proactive role in providing policy advisory on various economic issues encompassing from macroeconomic management, structural challenges to fiscal reforms. This is further bolstered by participation at various dedicated working-level platforms. In particular, this allows BNM to consistently provide insights on the economic outlook and emerging risks in the global and domestic economy.

In general, the legislative and institutional setup in Malaysia facilitated coherent monetary and fiscal policy responses while mitigating risks of adverse or excessive monetary-fiscal interactions. Still, the risk that could arise in the interaction between these policies needs to be managed proactively. Case in point is the proactive fiscal consolidation efforts by the Government as unsustainable government debt levels may complicate monetary policy considerations in responding to rising inflationary pressures. These risks could subsequently result in financial market instability and inadvertently result in a subtle form of fiscal dominance, which impedes macroeconomic stability and sustainable growth in the long run. Hence, sustained vigilance and continued enhancements to policy tools remain paramount.

To further safeguard the efficacy of monetary and fiscal policy and its interaction, several measures could be considered, which include:

Monetary policy:

A deeper understanding of structural shifts in the economy: Efforts to deeply understand ongoing and future structural shifts, whether arising from the pandemic crisis or prevailing economic megatrends (e.g. ageing population, digitalisation and climate change), continue to be part of BNM's agenda. This will enable BNM to undertake monetary

22 Refers to Section 5 and 70 of the Act.
23 Refers to Section 22 of the Act.
24 Arnone et al (2009) highlight the benefits of autonomous central banks empowered by a Central Bank Act on policy outcomes such as inflation.
25 Refers to Section 71 of the Act.

policy effectively in ensuring price stability that is consistent with sustainable growth. Of paramount importance is the keen understanding of the evolution of inflation dynamics and monetary policy transmission mechanism in light of these structural shifts. Research will be focused on these areas.

Fiscal policy:

- **Alignment with economically sound indicators:** Commitment to enhanced fiscal policy conduct by targeting a fiscal deficit towards the Debt Stabilising Primary Balance (DSPB)[26] and the Cyclically Adjusted Primary Balance (CAPB) would preserve fiscal sustainability and boost its effectiveness as a counter-cyclical tool. The Public Finance and Fiscal Responsibility Act (FRA) lays the groundwork for this and would mitigate procyclical tendencies while also ensuring debt sustainability.

- **Steadfast fiscal policy reform:** In the short-term, the consolidation efforts should also be supported by revenue and expenditure reforms. These include measure to broaden and diversify revenue base and prioritising expenditure items with high multiplier impact.[27]

Lastly, structural reforms play a crucial role in mitigating risks arising from monetary-fiscal interactions. It expands the Region of Stability and thus facilitates macroeconomic strength and resilience. Key reform areas include increasing the economy's growth potential, ensuring the workforce is future-ready, transitioning towards a low-carbon economy, ensuring effectiveness of social protection as well as building fiscal resilience by broadening the revenue base and optimising expenditure with a focus on high multiplier spending. Such reforms expand the Region of Stability by boosting potential growth and minimising volatility, thereby reducing pressures on monetary and fiscal policy to support economic activity. Recent announcements of major national economic masterplans[28] and reforms to the social protection system[29] are steps in the right direction. The former is essential for securing sustainable growth engines by boosting innovation and productivity meanwhile the latter provides resilience against economic shocks. Thus, it is imperative that these masterplans and other structural reform measures are executed well and in earnest.

Summary and way forward

Increased interaction between monetary and fiscal policy is not inherently detrimental to the economy. However, imprudent policy conduct could complicate a country's overall ability to operate within the Region of Stability. Malaysia's recent experience during the pandemic pointed to both policies working well within the Region of Stability. Nevertheless, it is recognised the post-pandemic landscape presents possible future vulnerabilities in the form of elevated fiscal risks due to high debt levels as well as more permanent shifts in the structure of the economy.

Moving forward, proactively building monetary and fiscal policy buffers is therefore crucial to mitigate these potential risks. Monetary and fiscal authorities must also be vigilant in enhancing their surveillance toolkits to better understand the evolution of the economy. For monetary policy, the immediate task is to ensure that risks to price stability are contained. For fiscal policy, it is important that the risks arising from the vigorous fiscal exertions during the pandemic are steadily unwound. Adherence to the ongoing fiscal consolidation plan will be key and would support debt sustainability over time. Taken together, this ensures the readiness of both policies to effectively play a counter-cyclical role in a coherent manner and solidify macroeconomic stability in a sustainable manner.

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[26] Refers to the primary balance (i.e. fiscal balance minus interest payment) at which government debt starts to moderate.
[27] Empirical estimates of fiscal multipliers indicate that expenditure on supplies and services and fixed assets exhibit the highest multiplier effects (Lau et al, 2022).
[28] Refers to the National Industrial Masterplan (NIMP) and the National Energy Transition Roadmap (NETR).
[29] Encompassing social safety nets, social insurance, and active labour market policies (ALMPs), these policies provide the social protection floor, mitigate life-cycle risks and enhance economic opportunities. This would be supported by overarching reforms such as a centralised database (i.e. Pangkalan Data Utama (PADU)).

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Outlook and Policy in 2024

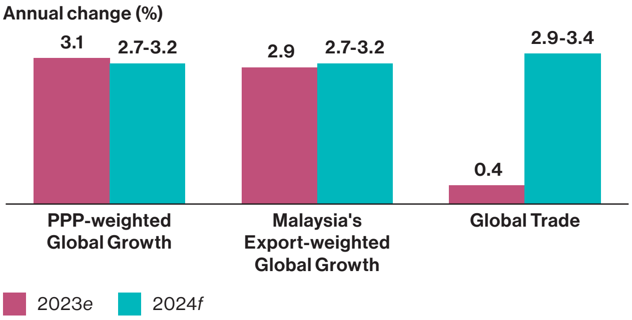
Outlook and Policy in 2024

2024: FURTHER ECONOMIC EXPANSION DESPITE HEADWINDS

Sustained global growth amid moderating inflation

In 2024, global growth is expected to be sustained (Chart 2.1). Headwinds from continued tight monetary policy and withdrawal of fiscal support are expected to be cushioned by supporting factors such as moderating inflation, resilient labour markets and a rebound in global trade.

Chart 2.1: Global Real GDP and Trade Growth



e Estimate
f Forecast

Notes: 1. PPP-weighted global growth is the aggregate global growth weighted by the purchasing power parity (PPP) exchange rate, the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.
2. Export-weighted global growth is the aggregate growth of Malaysia's key trading partners, as weighted by their shares in Malaysia's exports. This measure of global growth is more reflective of Malaysia's exports and growth prospects.

Source: Bank Negara Malaysia estimates

In advanced economies, despite domestic demand being more resilient than expected in 2023, signs of moderation are evident. Tight labour market has been gradually easing, with excess savings steadily depleting. Therefore, domestic demand is expected to soften in the first half of 2024 amid the lagged impact of monetary policy tightening. In contrast, the second half of the year will likely see a gradual improvement as the lagged impact of monetary policy tightening begins to dissipate.

Most regional economies are expected to see stronger growth in 2024, supported by a rebound in global trade. In addition, domestic demand is expected to be less restrained, as the degree of monetary tightening and inflationary pressure are significantly less compared to major advanced economies. Meanwhile, China's growth in 2024 is expected to soften, where the property market will continue to be a significant drag to growth, constraining consumer sentiments and spending. Nevertheless, growth in China will be supported by the rebound in global trade, new growth areas,[1] and expansionary monetary and fiscal policy, including a substantial portion of the RMB1 trillion government bond issuance.[2]

Global trade growth is expected to rebound in 2024 (2.9%–3.4%; 2023: 0.4%), driven by the global technology upcycle, further recovery in tourism activity and low base from 2023. The global technology upcycle is projected to be driven by the replacement cycle of consumer electronics and global inventory correction, as firms replenish depleting stocks. Structural factors will lend further support, including rising demand for electric vehicles, industrial automation, and the incorporation of artificial intelligence in consumer and industrial goods. The World Semiconductor Trade Statistics (WSTS) is projecting global semiconductor sales to grow by 13.1% in 2024 (2023: -8.2%). Sustained global demand is also expected to underpin the expansion of non-electrical and electronic (non-E&E) exports, particularly machinery and equipment, petrochemicals as well as vehicles. Additionally, global tourist arrivals are already close to pre-pandemic levels toward end-2023,[3] but the recovery

[1] Referring to production and sales of green-related products, namely electric vehicles, lithium batteries and solar cells.
[2] The funds will be used for infrastructure investment, focusing on post-disaster reconstruction and disaster prevention. The funds will also indirectly re-capitalise local government financing vehicles (LGFVs) and vulnerable local banks since the responsibility of infrastructure investment has been shifted to the central government.
[3] According to the United Nations World Tourism Organisation (UNWTO) Tourism Barometer (January 2024), international tourist arrivals have reached 88% of pre-pandemic levels in 2023.

remains gradual for the Asia Pacific region, which reopened later and more cautiously. Regardless, global tourist arrivals are on track to recover to pre-pandemic levels by 2024, supported by the continued rise in flight capacity, remaining pent-up travel demand and better tourism recovery in Asia. Despite the lift from the global technology upcycle and tourism recovery, global trade continues to face persistent headwinds. These stem from ongoing trade restrictions, continued spending rotation from goods to services and shipping disruptions in the Red Sea. Hence, despite the expected strong recovery, global trade growth will remain below its long-term average (2011–19 average: 3.7%).

Global inflation is expected to continue moderating in 2024, mainly attributable to disinflation among advanced economies, as some emerging market economies[4] are experiencing inflation trending below long-term averages. This is expected to provide room for major central banks to begin easing monetary policy in 2024. The disinflation among advanced economies will be underpinned by easing labour market tightness and pass-through effects from earlier declines in commodity prices. Global food prices are projected to continue declining, as supply conditions are expected to remain adequate. However, global energy prices are projected to average higher, albeit remaining below their 2022 peaks, following additional voluntary cuts by major global oil producers. Inflationary pressures on commodity prices could be exacerbated by prolonged geopolitical conflicts and more adverse effects from El Niño weather conditions which could disrupt food production and supply chains, thus posing upside risks to inflation.

The trajectory of monetary policy by major central banks is likely to continue as a key factor influencing global financial market conditions in 2024. As inflationary pressures have broadly shown signs of easing, central banks in major advanced economies have signalled that policy rates have reached their peaks. While a restrictive global monetary policy stance may continue if inflation remains stubborn, global central banks have also made clear their intentions to ease monetary policy once the trajectory of inflation steadily converges to their respective targets. Against this backdrop, the magnitude and pace of monetary policy easing will only become clearer once the strength of underlying demand and the persistence of inflation can be ascertained. Importantly, uncertainty surrounding the trajectory of global monetary policy easing could be a source of volatility, especially if the divergence between central banks' and financial market participants' expectations widens.

Should the US Federal Reserve commence its monetary policy easing cycle, the narrower yield differentials between the US and other economies, amongst others, may dampen the strength in the US dollar observed since 2022. This may induce portfolio rebalancing towards assets in emerging market economies, which could potentially result in a more favourable capital flow outlook for economies in the region.

Global growth outlook remains subject to downside risks

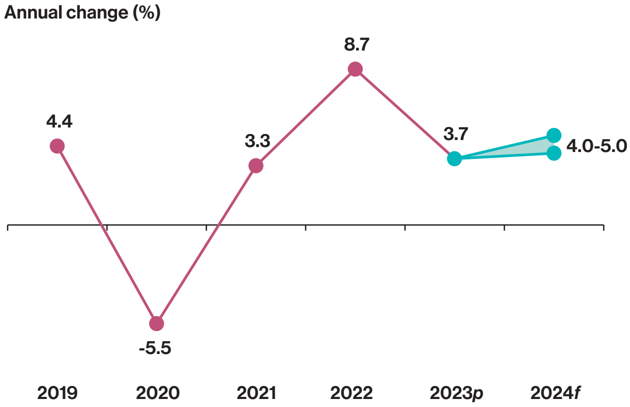
Downside risks to the global outlook could emanate from several factors. Higher-than-expected inflation could keep interest rates high for longer and dampen consumer spending. Higher-than-expected inflation could stem from unexpected rises in commodity prices and stronger-than-expected wage growth. Furthermore, high-for-longer rates in advanced economies, coupled with further stress in the banking sector and spillovers from China's economic slowdown, could lead to a sharp tightening in financial conditions, including in emerging market economies. A larger-than-expected lagged impact of existing rate hikes could even trigger recessions in the advanced economies. In addition, further escalation of geopolitical tensions in the Middle East and Ukraine could disrupt supply chains and global trade, as well as trigger financial market volatility and higher commodity prices. A worsening of the US–China relationship could also lead to further trade fragmentation globally. In contrast, upside risks to global growth could arise from stronger-than-expected consumer spending in advanced economies and fiscal support in China.

The Malaysian economy is projected to grow between 4%–5% in 2024, driven by continued expansion in domestic demand, and improvement in external demand

Growth will be driven mainly by resilient domestic expenditure, with additional support emanating from the expected recovery in exports. Continued employment and wage growth will remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be driven

[4] These refer to emerging Asian economies, namely China, India, Thailand, Indonesia and Vietnam.

Chart 2.2: Malaysia's Real GDP Growth



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

by continued progress of multi-year projects in both the private and public sectors, with some support from implementation of catalytic initiatives under the national master plans.

Trade activity is expected to recover gradually in tandem with a rebound in global trade. Gross exports are expected to expand (2024*f*: 5%; 2023: -8%), driven by the recovery in global trade and the technology upcycle, supporting E&E and non-E&E exports, as well as higher commodity prices underpinning commodity exports. Gross imports, which contracted in 2023, are also projected to increase. This is attributable mainly to higher intermediate imports and stronger domestic demand for consumption goods, alongside continued expansion in imports of capital goods in tandem with investment growth. Further recovery in international travel is projected to drive growth in tourism-related sectors. Of note, Tourism Malaysia targets 27.3 million tourist arrivals in 2024,[5] surpassing 2019 levels of 26.1 million persons (2023: 20.1 million). This will be spurred by improved flight connectivity and Government measures, such as more tourism promotion activities abroad as well as the 30-day visa-free travel for nationals from China and India. Furthermore, higher overall spending and a diversified source of tourists will also lift tourism activities in the year.

Domestic demand is expected to remain the main driver of growth. Household spending is projected to expand at a faster pace (2024*f*: 5.7%; 2023: 4.7%) supported by improving labour market conditions amid higher income growth and targeted Government assistance. These will partly cushion the impact of higher cost of living, the implementation of low-value goods (LVG) tax, and increase in sales and services tax (SST) on household spending. Private investment is expected to improve (2024*f*: 6.1%; 2023: 4.6%), lifted by further progress in the implementation of multi-year projects, as well as ongoing efforts in automation and digitalisation amid continued capacity expansions. Of significance, the progress of approved projects in recent years is well on track, with 74% of manufacturing projects approved from 2021 to 2023 having been implemented in various stages. Continued public investments in large-scale transport and digital infrastructure projects will also support growth, in addition to ongoing reform efforts by the Government to enhance the investment ecosystem and the implementation of initiatives under the strategic master plans. For example, catalytic projects under the National Energy Transition Roadmap (NETR) such as the Kasawari Carbon Capture and Storage (CCS) by PETRONAS, the Hybrid Hydro-Floating Solar (HHFS) Photovoltaic project by Tenaga Nasional Berhad and installation of Electric Vehicle (EV) charging stations led by Gentari are in progress, and will lend support to investments well beyond 2024.

Improving labour market conditions will continue to provide support to household spending. Employment will continue to expand, with growth trending closer to its historical average, supported by sustained demand for workers amid the ongoing recovery in tourism-related sectors and external trade activity. Coupled with continued expansion in labour force, the unemployment rate is expected to stabilise around its historical average of 3.3%. In line with continued employment growth and stronger production activity to fulfil rising demand, wages are also expected to increase further in 2024.

The growth outlook remains subject to downside risks. On the external front, downside risks emanate mainly from weaker-than-expected global growth and further escalation of geopolitical conflicts which could dampen Malaysia's trade performance. On the domestic front, more severe shocks on commodity production due to adverse weather events and prolonged field maintenance could weigh on the growth outlook. While the implementation of subsidy rationalisation can put downward pressure on growth, this could be partially offset by targeted cash assistance from the Government. Meanwhile, upside risks to growth stem mainly from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of existing and new investment projects.

[5] '*Tourism Malaysia confident of achieving target of 27.3 million foreign tourist arrivals in 2024*', Bernama, 11 February 2024.

Headline inflation is expected to average between 2% and 3.5% in 2024, largely reflecting potential upside from domestic subsidy rationalisation

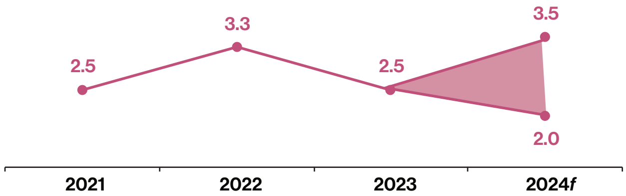
In 2024, headline inflation is expected to remain moderate amid contained cost pressures. Firms face lower production cost pressures from the easing of global supply conditions as broader cost pressures from higher global commodity prices have largely dissipated, with prices expected to moderate further. This would likely lead to more gradual cost pass-through, thus keeping domestic production costs contained. In addition, the impact of exchange rate depreciation to inflation would be manageable, as it will be partly limited by administered prices and relatively stable firm pricing behaviour. However, some pressures could arise in anticipation of various domestic policy measures. Tax changes and adjustments to utility tariffs that have either taken place or are scheduled to take place in 2024 are expected to have a marginal impact on headline inflation in 2024. The direct impact is minimal as the affected items from both policy changes only account for a small share of the CPI[6] basket. Specifically for the tax changes, major service segments such as food and beverages are excluded and although some pressures may arise indirectly from higher logistical costs, the impact is likely to remain limited.

Core inflation is also expected to be moderate in 2024, albeit remaining above its long-term average. This is amid continued expansion in domestic demand, coupled with further expected increases in wages. Nonetheless, upward pressures to underlying inflation are expected to be contained as there are limited demand pressures and stable near-term sentiments on economic conditions. In addition, the expected moderate wage increases that are in line with productivity growth would also limit the upward pressures on underlying inflation.

On balance, headline and core inflation in 2024 are projected to average between 2% to 3.5%, and 2% to 3% respectively. The wider forecast range has incorporated some potential upside on inflation that could arise from the implementation of fuel subsidy rationalisation.

The outlook for inflation remains highly subject to upside risks from both domestic policy factors and external forces. Domestically, the potential price adjustments to essential items would induce higher prices on the affected items, particularly those related to energy and food. Of note, the inflation outlook hinges on the potential adjustment to the blanket fuel subsidies. Given the sizeable share of fuel in the CPI basket, fuel price adjustments would directly lead to an increase in headline inflation. This direct impact from a one-off fuel price adjustment on headline inflation will likely dissipate within one year as base effects diminish. However, the extent of upside risks would depend on the knock-on effects of the policy adjustment, where firms raise prices to cover increases in costs, leading to broader price pressures on other goods. Additionally, wage-price dynamics can also pose a tail risk to inflation, although the risk of such second-round effects is assessed to be small in Malaysia as wage increases are aligned with productivity growth.

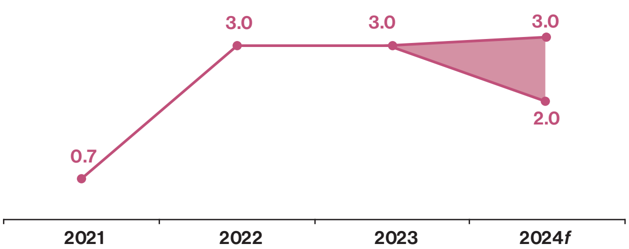
Chart 2.3: Malaysia's Headline Inflation, Annual Change (%)



f Forecast

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

Chart 2.4: Malaysia's Core Inflation, Annual Change (%)



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Note: Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.

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

[6] The Consumer Price Index (CPI) is a monthly publication by DOSM, which presents statistics on the cost of purchasing 13 main groups of goods and services. This is consistent with the classification according to the United Nations 'Classification of Individual Consumption According to Purpose' (COICOP). Malaysia's CPI is compiled based on prices that are collected on either on a monthly basis (for all items) or weekly basis (for perishable food items). Rents are collected once in a quarter.

Nonetheless, the short-term impact of fuel subsidy rationalisation on inflation and growth will also depend on the size and timing of the price adjustments. Additionally, the scope of targeted assistance[7] accompanying the rationalisation of subsidies is also important as it would mitigate the impact from higher costs on vulnerable populations amid the transition.

Externally, exchange rate and global commodity price developments could further exacerbate the cost pressure to inflation. Notably, segments that are sensitive to import prices such as food and transport would see a more material impact from exchange rate pass-through. On top of risks from exchange rate pass-through, upward pressure on food inflation could also emanate from other lingering risks such as geopolitical tensions and weather disruptions. Nonetheless, downside risks to inflation would stem primarily from weaker global growth, which could weigh on commodity prices and thus, cost pressures.

Domestic monetary and financial conditions to remain conducive to financial intermediation activities

Amid the tapering of the effect of OPR increases on wholesale and retail interest rates, domestic monetary and financial conditions are expected to remain conducive to financial intermediation activities, providing support for economic growth. Credit flows are expected to remain forthcoming in 2024 amid a well-functioning capital market and banks' continued willingness to lend. Banks' healthy liquidity and capital buffers will also help ensure a sustained supply of credit to finance consumption and investment activities. On the demand side, continued expansion of economic activity and the improvement in labour conditions are expected to contribute towards sustained demand for financing, especially for households and small and medium enterprises (SMEs).

As global financial conditions continue to ease – especially when central banks in advanced economies start to ease their monetary policy stance – yield differentials between advanced and emerging economies are expected to narrow. Against this backdrop, emerging economies including those within the region, stand to gain from capital inflows as investors rebalance their portfolios. While MGS yields are expected to stay low in line with most global yields, a potential moderation in the USD strength as a result of the expected lower policy rates in the US could boost domestic currency returns, subsequently increasing total returns of domestic bonds. Meanwhile, continued confidence by global investors as well as steady progress of key infrastructure projects are expected to further support the positive momentum of Malaysian equities observed since the start of the year. Bringing this together, achieving meaningful progress in transforming the economy and comprehensive investor relations efforts are therefore crucial in attracting capital inflows as any delay or backtracking in policy implementation will hamper investor sentiments.

Given Malaysia's positive growth prospects, the current ringgit level is undervalued. While prevailing challenges in global markets have led to short-term volatility of the ringgit, financial markets expect pressure on the ringgit to abate as uncertainties in the external environment subside. These include the trajectory of global monetary policy and solid growth in regional partners. These are expected to provide support to the ringgit to more closely reflect Malaysia's economic fundamentals.

Any adverse spillovers from the global financial markets to domestic financial conditions and exchange rates will be manageable. Malaysia's economy has the ability to weather external shocks given its resilience as exemplified by, among others, a net external creditor position, a manageable level of external debt and current account surplus. In addition, to support the orderly functioning of the domestic financial markets and ensure the ringgit remains stable, Bank Negara Malaysia (BNM) continues to monitor developments and ensure sufficient liquidity in the domestic financial system. In addition, BNM and the Government are undertaking coordinated actions to ensure sustained flows into the foreign exchange market. To this end, BNM has raised engagements with Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs) to encourage more consistent repatriation and conversion of their foreign investment income into ringgit. BNM is also stepping up engagements with international investors to highlight Malaysia's positive prospects and attractiveness as a highly promising destination for investment and business.

[7] Include cash transfers for households through Sumbangan Tunai Rahmah (announced in Belanjawan 2024) and fleet card programme for the transportation sector (announced by Communications Minister Fahmi Fadzil on 31 January 2024).

Monetary policy will remain conducive to a sustainable economic growth while ensuring an environment of price stability

Having normalised to pre-pandemic levels in 2023, monetary policy in 2024 will focus on maintaining a stance that is conducive to sustainable growth while managing risks to inflation.

Moderate inflation and better economic growth in 2024 provide an appropriate landscape for the implementation of key policies as announced by the Government. These include the Government's efforts to broaden and diversify its revenue base, subsidy rationalisation and other domestic policies such as the progressive wage model. Given the extent of the potential changes to be implemented, as well as any associated mitigation measures, the MPC will continue to assess how these factors will affect inflation dynamics and demand conditions.

Beyond domestic policies, the MPC is also mindful of other upside risks to the inflation outlook including global commodity prices and financial market developments. Though growth is expected to improve in 2024, the outlook remains subject to downside risks. These include weaker-than-expected external demand and larger declines in commodity production. Nevertheless, upside risks to growth could also materialise, emanating from positive spillovers from the tech upcycle, more robust tourism activity, and faster implementation of existing and new projects.

The MPC aims to ensure a monetary policy stance that is supportive of the economy and consistent with the current assessment of the inflation and growth prospects, on the back of potential domestic policy changes and a challenging external environment. Given the degree of uncertainty, the MPC remains vigilant of ongoing developments and their implications on the balance of risks surrounding domestic inflation and growth.

Domestic demand remains the anchor of growth

Malaysia's economic growth in 2024 is expected to be supported by resilient domestic demand and a recovery in exports. Household spending is projected to be supported by improving labour market conditions and continued Government assistance programmes. Investment activity is expected to be underpinned by the ongoing implementation of multi-year projects in both the private and public sectors, as well as progress of catalytic initiatives under the national master plans. Investments will also be lifted by the implementation of newly approved investment, both foreign and domestic. The external sector is expected to benefit from better global trade and further recovery in tourism activity.

Private consumption is projected to grow by 5.7% in 2024 (2023: 4.7%) underpinned by the continued improvement in labour market conditions. Employment growth is expected to continue expanding, supported by sustained demand for workers. The unemployment rate is projected to decline to 3.3%. Meanwhile, income growth is projected to be driven by higher wages in the manufacturing and service sectors. Government measures, including the expansion of Sumbangan Tunai Rahmah and the early incentive payment for civil servants, are also expected to support household spending.

Gross fixed capital formation (GFCF) is expected to grow by 6.2% (2023: 5.5%). The 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)[8]) 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 realisation of investments promoted under these master plans will span across several years, thus providing continued positive spillovers to the economy going forward.

Table 1

Real GDP by Expenditure (2015=100)

	2023*p*	2023*p*	2024*f*	2023*p*	2024*f*
	% of GDP	Annual change (%)		Contribution to growth (percentage point)	
Domestic Demand[1]	**94.1**	**4.8**	**5.4**	**4.4**	**5.1**
Private Sector Expenditure	76.2	4.7	5.8	3.6	4.4
Consumption	60.8	4.7	5.7	2.8	3.5
Investment	15.5	4.6	6.1	0.7	1.0
Public Sector Expenditure	17.8	5.1	4.0	0.9	0.7
Consumption	13.3	3.9	3.2	0.5	0.4
Investment	4.6	8.6	6.2	0.4	0.3
Gross Fixed Capital Formation	20.1	5.5	6.2	1.1	1.2
Change in Stocks	**1.2**			**-0.1**	**-0.7**
Net Exports of Goods and Services	**4.7**	**-11.3**	**2.1**	**-0.6**	**0.1**
Exports	66.3	-7.9	4.0	-5.9	2.6
Imports	61.6	-7.6	4.1	-5.3	2.5
Real Gross Domestic Product (GDP)	**100.0**	**3.7**	**4.0 - 5.0**	**3.7**	**4.0 - 5.0**

[1] Excluding stocks

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Note: Figures may not necessarily add up due to rounding.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

[8] There are ten flagship catalyst projects under the NETR, spanning across six energy transition levers: energy efficiency, renewable energy, hydrogen, bioenergy, green mobility, as well as carbon capture, utilisation and storage. These projects are expected to attract more than RM25 billion worth of investment.

Diagram 1: Positive spillovers from catalytic investment and focus areas under major national master plans

Master Plan Initiatives (Example: NETR, NIMP 2030)

Catalytic Investments / Focus Areas

Catalytic InvestmentsExamples:
- NIMP 2030 – Integrated circuit design, generative artificial intelligence, wafer fabrication, and smart factories
- NETR – Integrated Renewable Energy (RE) Zone, Sarawak Hydrogen Hub

Focus Areas
- NIMP 2030 Missions – (1) Advance economic complexity; (2) Tech up; (3) Net zero; (4) Safeguard economic security and inclusivity
- NETR Levers – Energy efficiency, renewable energy, hydrogen, bioenergy, green mobility, and carbon capture, utilisation and storage (CCUS)

Enablers

Policy & Regulation
Example:
Policy & Regulation
- Whole-of-nation governance framework
- Developing Third Party Access framework for sourcing of renewable energy
- Developing CCUS specific policies and regulations
- Energy Efficiency and Conservation Act

Funding
Example:
- NIMP Industrial Development Fund
- NIMP Strategic Co-Investment Fund
- National Energy Transition Facility

Talent Development (e.g., leverage MyFutureJobs, expand Technical and Vocational Education and Training, TVET programmes)

Investor journey (e.g., streamline investment promotion agencies, establishment of Invest Malaysia Facilitation Centre)

Impact to Economy

Macroeconomic Targets

Economic growth
- NIMP 2030 : +RM223 billion to GDP and +0.6 million jobs by 2030
- NETR: +RM220 billion to GDP and +0.3 million jobs by 2050

Investment activity
- NIMP 2030 : +RM95 billion by 2030
- NETR: +>RM1 trillion by 2050

Spillover Channels
- Increase in production leads to more demand on domestic suppliers across the supply chain
- Higher value add from more complex and innovation-led goods and services
- Greater competitiveness arising from stronger trade links and supply chain diversification
- Increase in high-skilled job creation, supporting income growth
- Address infrastructure bottlenecks and better fulfil energy requirements
- Better growth sustainability arising from green investment

References: National Energy Transformation Roadmap (NETR), New Industrial Master Plan 2030 (NIMP 2030), news flows, Bank Negara Malaysia

Note: The list of NETR and NIMP initiatives are not exhaustive

Private investment is projected to improve by 6.1% (2023: 4.6%). Growth is expected to be supported by the realisation of new and ongoing investment projects amid the better global and domestic outlook. Notably, investment intentions remain positive, as reflected by the high approved investment amounting to RM330 billion in 2023 (2022: RM268 billion). This 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. Furthermore, the high value of early-stage construction work done (2023: RM31.5 billion; 2022: RM26.3 billion) suggests positive investment prospects ahead.

For the third consecutive year, public investment is projected to expand above its pre-COVID-19 average growth (2024f: 6.2%; average 2011–19: -0.2%). This is expected to be driven by both the General Government and public corporations. The 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.

Public consumption is estimated to expand by 3.2% (2023: 3.9%). Growth will remain supported by emoluments spending amid annual salary increment for civil servants and new hirings in the public sector. The 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.

Expansion in most economic sectors

On supply side, most sectors are projected to grow in 2024. The *services* and *manufacturing* sectors will be the key drivers to overall growth.

Table 1

Real GDP by Kind of Economic Activity (2015 = 100)

	2023*p*	2023*p*	2024*f*	2023*p*	2024*f*
	% of GDP	Annual change (%)		Contribution to growth (ppt)[1]	
Services	59.2	5.3	5.5	3.1	3.3
Manufacturing	23.4	0.7	3.5	0.2	0.8
Agriculture	6.4	0.7	-0.5	0.0	0.0
Mining and quarrying	6.2	1.0	3.5	0.1	0.2
Construction	3.6	6.1	6.7	0.2	0.2
Real Gross Domestic Product (GDP)	**100.0[1]**	**3.7**	**4.0 - 5.0**	**3.7**	**4.0 - 5.0**

[1] Figures may not necessarily add up due to rounding and exclusion of import duties component.

p Preliminary
f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The *services* sector is projected to grow by 5.5% (2023: 5.3%), driven mainly by improvement in the business-related subsectors. The recovery in external demand and ongoing implementation of private and public construction projects will support the real estate and business services as well as the transport and storage subsectors. In addition, further rollout of 5G network coverage and its increased subscriptions will drive growth in the information and communication subsector. Consumer-related subsectors will continue to benefit from further recovery in tourism activities, partly supported by the 30-day visa-free travel for China and India nationals, as well as resilient household spending amid improving labour market conditions.

The *manufacturing* sector is expected to expand by 3.5% (2023: 0.7%), supported by the 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 the first half of the year, with a stronger recovery anticipated in the second half of the year. This will be 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). The 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. Growth of the consumer-related cluster will remain supported by continued recovery in tourism activities, amid normalising vehicle sales. Meanwhile, the construction-related cluster is expected to benefit from the continued progress of multi-year investment projects.

The *agriculture* sector, however, is expected to contract by 0.5% (2023: 0.7%), as 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.

The *mining* sector is estimated to expand at a faster pace (3.5%; 2023: 1%), driven by an increased production in existing oil and gas fields. Ramp-up in key oil fields in Sarawak will drive higher oil production. Concurrently, production enhancements in Block SK320 and commencement of a new field in Sarawak will drive higher natural gas production. This will more than offset the output losses from maintenance-related closures and production declines in maturing fields.

Higher growth is expected in the *construction* sector (6.7%; 2023: 6.1%), driven by continued activities in the civil engineering, special trade and residential subsectors. This will be supported by new and ongoing large infrastructure and small-scale projects under the Budget 2024, NIMP 2030 and NETR. Meanwhile, growth in residential subsector will be driven by new housing launches amid further improvement in housing demand.

Export and import growth to rebound in 2024

Malaysia's gross exports is expected to turn around, recording growth of 5% in 2024 (2023: -8%). This rebound is underpinned by higher global trade activities, the recovery in global technology cycle and higher commodity prices.

Manufactured exports, which account for 85% of Malaysia's total exports, are projected to grow by 4.7% (2023: -6.7%). This is supported by improving E&E and non-E&E segments. The recovery of E&E exports will be driven mainly by the rebound in global technology cycle.[9] This is in line with higher demand for integrated circuits and semiconductors amid ongoing adoption of technological megatrends (e.g. artificial intelligence, electric vehicles, 5G). The rebound of non-E&E exports will be underpinned by improving demand from regional economies and improving domestic supply conditions.[10]

Commodities exports are expected to grow by 6.5% in 2024 (2023: -16.2%). Agricultural exports will be driven mainly by higher crude palm oil prices as global palm oil supply is affected by adverse weather conditions, notably from the El Niño weather phenomenon. Mineral export growth will be supported by higher price and production of oil and gas.

Table 1

External Trade

	2015-2019 average	2023*p*	2024*f*
	Annual change (%)		
Gross exports *of which:*	**5.6**	**-8.0**	**5.0**
Manufactured	7.6	-6.7	4.7
Agriculture	-0.6	-22.1	9.7
Minerals	-3.1	-10.1	3.6
Gross imports *of which:*	**4.7**	**-6.4**	**5.4**
Capital goods	1.2	7.1	7.7
Intermediate goods	3.1	-12.1	5.6
Consumption goods	8.4	0.1	4.6
Trade balance (RM billion)	**109.5**	**214.1**	**220.3**

p Preliminary
f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

9 In November 2023, WSTS projected a growth of 13.1% for global semiconductor sales in 2024 (2023: -8.2%; 2011–19 average: 4.1%).
10 These include the completion of plant maintenance and ramp-up of production capacity in both upstream and downstream segments in East Malaysia and Johor, supporting exports of petrochemicals products.

The export projections are subject to downside risks. These stem mainly from slower-than-expected economic activities among key trading partners, unexpected domestic disruptions for commodity production and further escalation of geopolitical conflict. However, stronger-than-expected spillover from the global tech upcycle could provide an additional lift to Malaysia's exports.

Gross imports are projected to grow by 5.4% in 2024 (2023: -6.4%) in tandem with higher exports and improving domestic demand. The expansion of intermediate imports is underpinned by the rebound of manufactured exports' growth. Meanwhile, imports of consumption and capital goods will continue to grow, supported by higher consumption and investment activities.

The current account of the balance of payments to register a higher surplus

The current account of the balance of payments is expected to record a higher surplus of 1.8%–2.8% of GDP in 2024. This would be an improvement from 1.2% of GDP in 2023, which was the lowest recorded current account balance since 1997 (-5.9%). The improvement is driven mainly by higher goods surplus amid lower deficit in services account.

The goods account is projected to record a higher surplus, as exports growth recovery more than offsets the rebound in imports growth. Meanwhile, the services account is expected to register a smaller deficit. This is mainly due to a higher surplus in the travel account as tourist arrivals continue to recover to pre-pandemic levels in 2024. Nonetheless, the overall services account is expected to remain in deficit. This reflects the continued reliance on foreign services particularly in the transportation segment.

The improvement in goods and services accounts is expected to outweigh the continued deficit in the primary income, which is driven by the continued income payment accrued to foreign investors in Malaysia amid improving exports earnings. Similarly, the secondary income account is expected to remain in deficit, due mainly to sustained outward remittances by foreign workers.

Table 2

Current Account of Balance of Payments[1]

Item (Net)	2023*p*	2024*f*
	RM billion	
Goods	132.9	163.8
Services	-41.9	-40.9
Primary income	-55.1	-68.3
Secondary income	-13.2	-13.2
Current account balance	**22.8**	**41.5**
% of GDP	*1.2*	*1.8-2.8*

[1] In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

p Preliminary
f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Potential output and the output gap of the Malaysian economy

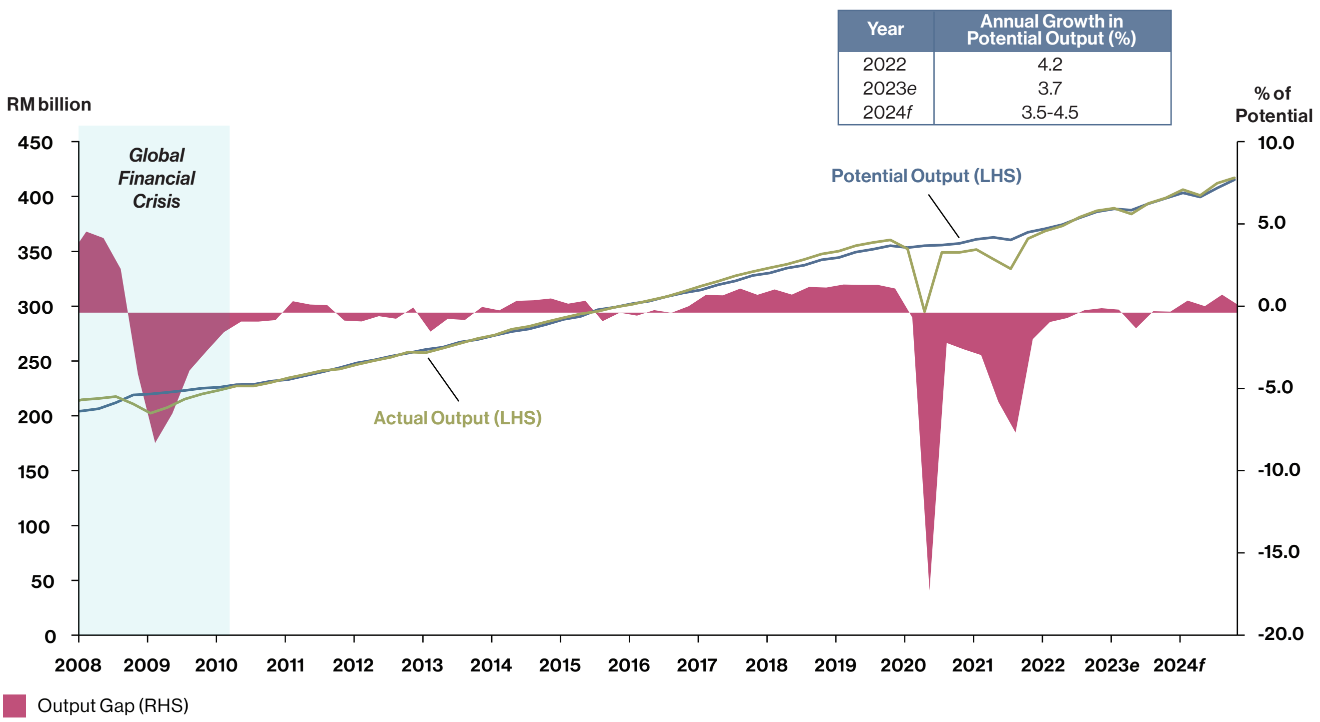
Potential output is the highest non-inflationary level of output that can be produced in an economy. It indicates the economy's sustainable growth path, based on prevailing factors of production (i.e. labour and capital) and productivity.

In 2023, potential output[10] expanded by 3.7% (2022: 4.2%; 2011–19 average: 4.9%). The moderation was driven by slower capital accumulation in line with more modest investment activity (2023: 5.5%; 2022: 6.8%), as well as lower total factor productivity (TFP) growth. This was partially offset by the expansion in labour force participation (2023: 70%; 2022: 69.3%), as the unemployment rate normalised to pre-pandemic level.

Output gap remained negative in 2023 (-0.2%; 2022: -0.1%)[11] despite actual output recording a growth of 3.7% (2022: 8.7%), similar to the growth in potential output. This is mainly attributed to the higher level of potential output relative to the level of actual output.

Going forward, the output gap is expected to turn positive in 2024. While potential output is projected to grow between 3.5%–4.5%, actual output growth of 4%–5% is projected to grow at a faster pace, underpinned by continued expansion in domestic demand and improvement in external demand. Over the medium term, potential output will remain supported by higher investments and improvements in productivity amid continued implementation of multi-year investment projects as well as national masterplan such as NIMP 2030 and NETR with a projected growth rate of 4%–5%, reverting to the pre-crisis level.

Chart 1: Actual and Potential Output



e Estimate
f Forecast

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

[10] Potential output is derived through an average of several methodologies including Production Function, Laubach-Williams model, Real Business Cycle model, Kalman Filter and DSGE model.

[11] The output gap is formally defined as $\frac{\text{(Actual output level - Potential output level)}}{\text{Potential output level}} \times 100\%$.

The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities

Malaysia's ambition to become a high-productivity, high-income nation faces a significant hurdle: persistent structural issues in its labour market. Existing efforts to address these challenges, while commendable, may be insufficient. More decisive action is needed. Emerging and ongoing megatrends, as well as the implementation of various national strategic initiatives make the labour market reforms more urgent.

This article discusses the case for labour market reforms in Malaysia. It begins with an overview of the labour market landscape in Malaysia, contrasting between the pre- and post-COVID-19 period. Next, it highlights the key megatrends that will present both challenges and opportunities in the coming years. This article concludes with a discussion on the key structural policy reforms to address existing challenges and prepare the labour market for the future.

Part I: Labour market landscape in the pre- and post-COVID-19 period

The pandemic had caused significant disruptions to the labour market with the unemployment rate peaking at 5.1% in the second quarter of 2020. These effects were particularly acute for vulnerable segments of the economy, such as women and youth. Since containment measures were fully lifted in 2022, the Malaysian labour market has shown a steady recovery.

By end-2023, the unemployment rate had returned to its pre-pandemic (2015–19 average) rate at 3.3%. In addition, the labour force participation rate has breached a historical high. This positive development has been driven mainly by a significant increase in participation rate for men. In part, this reflects the increased opportunity in location-based gig work, such as food delivery and e-hailing services. Meanwhile, women labour force participation rate has also surpassed pre-COVID-19 levels and continues to trend upwards, although the pace of increase was slower [1] compared to the men's participation rate.

Table 1

Labour Force Participation Rate (% of working age population)

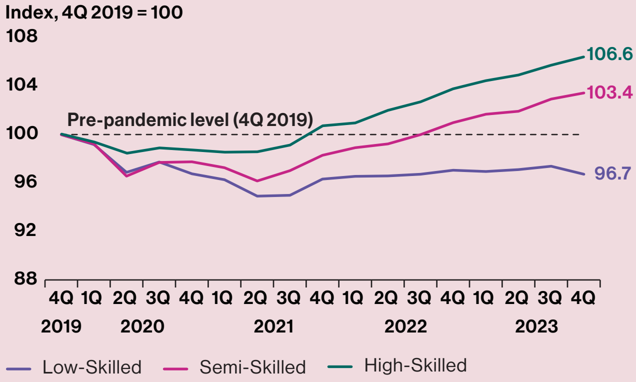
	Overall	By gender		By education attainment	
		Male	Female	Secondary	Tertiary
Pre-pandemic (2017–19 average)	68.3	80.4	55.2	68.1	69.0
Post pandemic (2021–22 average)	69.0	81.4	55.7	67.5	72.7

Source: Labour Force Report by Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Of significance, there has been higher demand for high-skilled[2] workers post-COVID-19.[3] Between fourth quarter of 2019 and fourth quarter of 2023, the number of employed high-skilled workers has increased by 6.6% from 2.05 million persons to 2.19 million persons. Correspondingly, the share of high-skilled workers in employment has also inched higher since the pandemic (2021–23 average: 24.9%; 2017–19 average: 24.3%). This trend has been driven by the services sector, specifically in the wholesale and retail trade subsector. This can be attributed to rising demand for professionals in business and administration,[4] as more firms launch e-commerce platforms, use social media for marketing, explore data analytics for efficiency and adopt automation and digital systems.

[1] This can be attributed to the higher representation of women in consumer-facing and contact-intensive services sectors, as well as the increased need for provision of family and childcare during the pandemic.
[2] Defined as jobs that require tertiary education (Source: Malaysia Standard Classification of Occupations (MASCO) 2020).
[3] The analysis on employment by skill and sector presented in this article is based on Employment Statistics published by the Department of Statistics, Malaysia, which provides the necessary data dimensions for the assessment.
[4] Examples include finance, human resource development, public relations, marketing, sales, information and communication technology, and management.

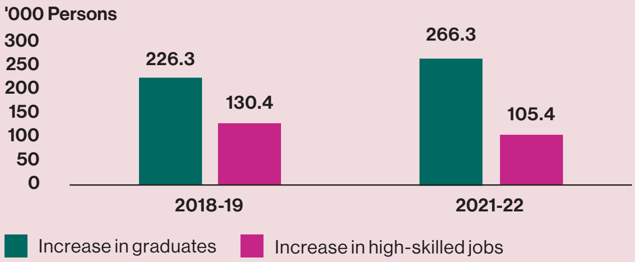
Chart 1: Filled Jobs by Skill Level



Source: Employment Statistics by Department of Statistics, Malaysia and Bank Negara Malaysia

Despite the growing demand, the low creation of high-skilled jobs in Malaysia continues to persist. The pace of increase in high-skilled jobs still lags the average number of new graduates in the labour force. Between 2018 and 2019, new graduates in the labour force were about twice the increase in high-skilled jobs. This gap has widened post-pandemic (Chart 2). Malaysia also lags behind select advanced and regional economies in terms of share of high-skilled jobs (Chart 3).

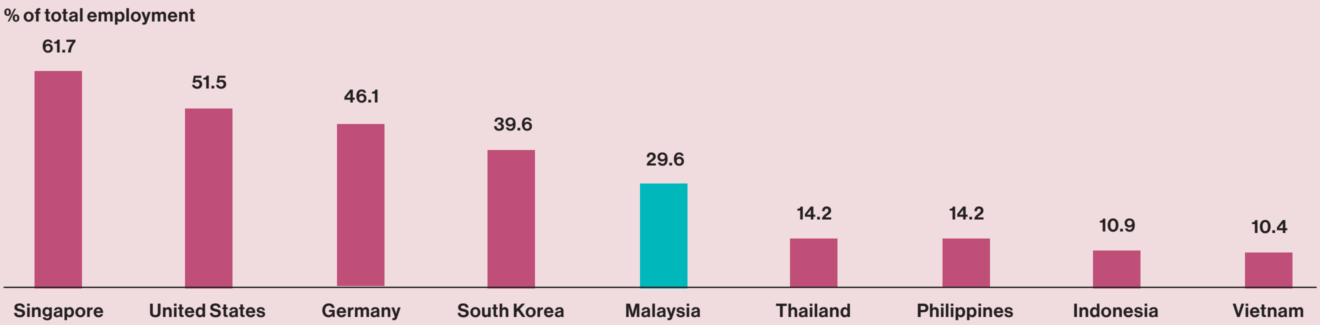
Chart 2: Increase in Graduates in the Labour Force and High-skilled Job Creation



Note: High-skilled job creation is defined as the increase in number of persons who are employed as managers, professionals or technicians and associate professionals.

Source: Labour Force Survey Report and Graduate Statistics by Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 3: High-skilled Jobs as a Share of Total Employment in 2022

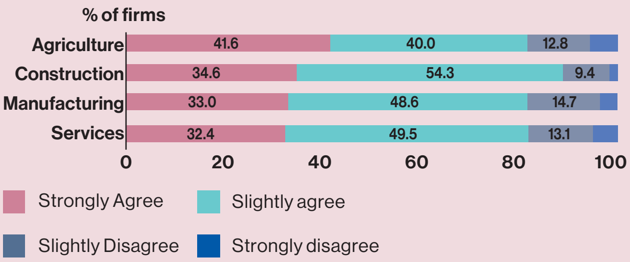


Source: ILOSTAT, Labour Force Survey Report by Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Of great concern, a large number of the existing pool of graduates is assessed to be unsuitable to take on the available high-skilled jobs. Firms continue to face difficulties in filling existing high-skilled jobs (Chart 4) across various sectors of the economy. This suggests mismatches in the area of study, or a lack of soft skills that are needed for the job, but not necessarily obtainable from formal education and academic qualifications (World Bank, 2023). For example, 55.7% of firms reported that they had difficulty finding employees with good interpersonal and communication skills (Chart 5).

Together, insufficient high-skilled job creation and skills mismatch have contributed to the prevalence of high skills-related underemployment (2021–22 average: 38.4%; 2018–19 average: 33.8%),[5] which refers to those with tertiary education but working in the semi-skilled and low-skilled categories. Overall, employment remains primarily concentrated in semi-skilled[6] segments post-COVID-19. More than 70% of the jobs in the agriculture, construction and manufacturing sectors are in the semi-skilled category.

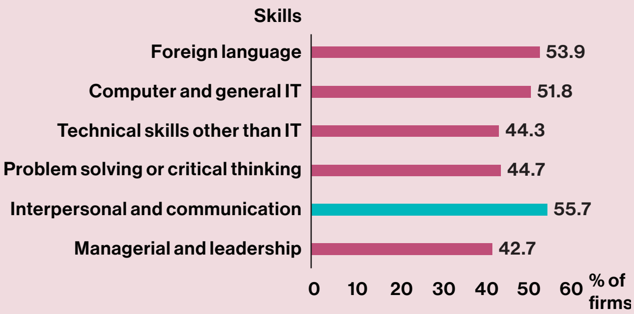
Chart 4: Share of Firms Citing Difficulty to Satisfy Demand for High-skilled Labour, by Economic Activity



Note: The agriculture sector refers to commercial agriculture, defined as economic acitvities along the agricultural value chain that have market orientation.

Source: World Bank Business Pulse Surveys 2022

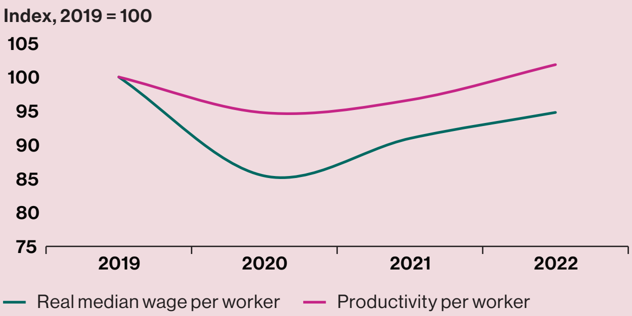
Chart 5: Share of Firms with Difficulty Finding Employees with Specific Skills



Source: World Bank's Productivity of the Investment Climate Private Enterprise Surveys (PICS)-3 2019-20

Since the pandemic, the real median wage per worker has lagged productivity growth (Chart 6). This significant productivity-wage gap is accounted mostly by the services sector. Furthermore, the compensation of employees share of income in Malaysia is much lower than in most advanced economies, suggesting that a relatively smaller share of the economic pie is going to workers (Chart 7).[7]

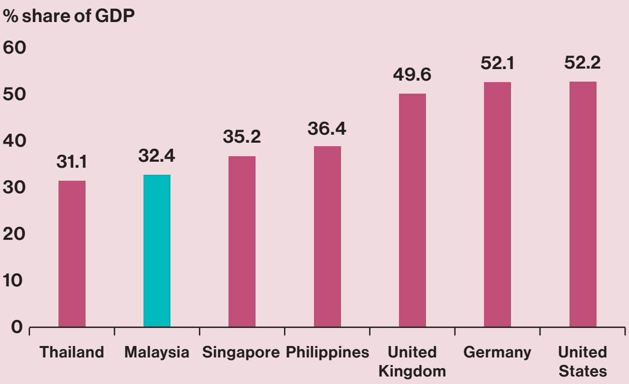
Chart 6: Real Median Wage vs Productivity per Worker



Note: Real median wage is estimated by deflating nominal median wage with Consumer Price Index. Productivity is defined as real value added per worker.

Source: Salaries and Wages Survey Report, Consumer Price Index and Labour Productivity Statistics by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 7: Compensation of Employees in 2022



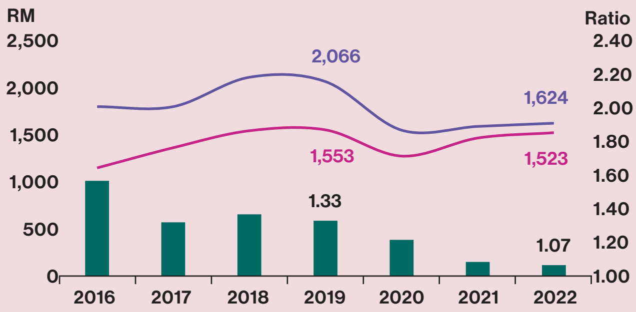
Note: Data as at 6th March 2024. GDP data is subject to revisions.

Source: CEIC, Department of Statistics, Malaysia, national authorities, and Bank Negara Malaysia estimates

5 Refers to underemployed persons out of total employed persons with tertiary education.
6 Defined as jobs that require secondary or post-secondary education (Malaysian Skills Certificate level 1 and level 2 or equivalent) (Source: MASCO 2020).
7 For further details, please refer to the box article 'Are Malaysian Workers Paid Fairly?: An Assessment of Productivity and Equity' in Bank Negara Malaysia's Annual Report 2018.

Developments relating to fresh graduates'[8] wages are even more worrisome. Post-pandemic, the median starting salary was more than 20% lower compared to the 2019 level (2019: RM 2,066; 2022: RM 1,624). This implies that the wage premium[9] for fresh graduates has declined sharply post-COVID-19 (Chart 8). This may partly reflect the existing high skill underemployment of graduates (discussed earlier), which has worsened the low bargaining power of workers.

Chart 8: Median Wages of Fresh Graduates & All Workers Aged below 24 (in RM) and Fresh Graduate Wage Premium

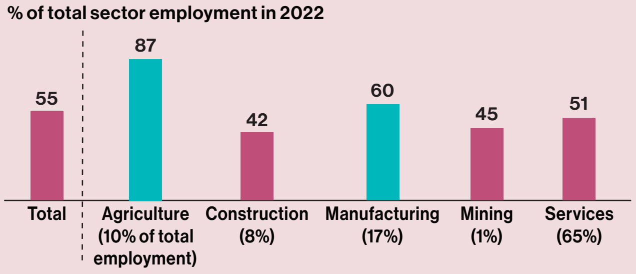


Source: Salaries and Wages Survey Report, and Graduate Statistics by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Part II: Key megatrends affecting the labour market

Several global and domestic key megatrends could disrupt and exacerbate some of the prevailing labour market issues in Malaysia. Technological advancement would transform the way people work – certain jobs will be eliminated or modified and new jobs could be created. In the short- and medium-term, greater adoption of automation and generative artificial intelligence (AI) could displace low-skilled jobs, and routine tasks at all skill levels. It is estimated that by 2030, automation could displace up to 4.5 million jobs in Malaysia (Mckinsey & Company, 2020). For Malaysia, the risk of displacement due to automation is highest in the agriculture and manufacturing sectors (Chart 9). Meanwhile, generative AI is expected to affect white collar knowledge workers who undertake tasks involving data analytics, pattern recognition and routine decision making (Mckinsey Global Institute, 2023).

Chart 9: Share of Workers in Jobs that Face High Risk of Automation



Note: Estimates of automation risk are adopted from the methodology developed by Frey and Osborne (2013). These estimates are upper bounds of the automation risk as the methodology assumes the automatability of an entire job, rather than the automatability of different tasks in a job. A job with automation risk of 70% and above is considered facing high risk of automation.

Source: Bank Negara Malaysia estimates using data from the Labour Force Survey by Department of Statistics, Malaysia and Frey and Osborne (2013)

[8] Proxied by graduates aged below 24 years old.
[9] Calculated as the ratio of the median wage of graduates below 24 years old over the median wage for all workers below 24 years old.

Notwithstanding the potential job disruptions, technology advancement also has positive spillovers on jobs. A wide variety of high-skilled jobs that are complemented by AI[10] have a vast potential for productivity enhancements. Moreover, automation of repetitive tasks allows workers to focus on higher value tasks. New jobs, especially those that require highly specialised skills to manage technology and AI, will be created. New technologies also facilitate the rise of flexible working arrangements which encourage higher labour force participation, particularly among female, and promote greater labour mobility. These positive outcomes will result in higher income for the country.

A more recent megatrend is the reconfiguration of supply chains. The COVID-19 pandemic spurred firms to undergo 'nearshoring' or 'reshoring'[11] to reduce their risks to supply chain disruptions (International Labour Organization, 2022). The impact of the shift in supply chains on the labour market is unclear for now and depends on a host of factors.[12] For exporting countries such as Malaysia, employment in the manufacturing sector will be impacted, especially low-skilled machine operators and technicians in low value-added and labour-intensive industries (Barcia de Mattos, Dasgupta, Jiang, Kucera, & Schiavone, 2020). These workers are most at risk of being displaced as they cannot easily transition to other jobs if firms move their production out at a massive scale.

As the world strives to decarbonise, Malaysian industries need to reduce the reliance on fossil fuels and improve energy efficiency to maintain trade competitiveness.[13] As polluting or carbon-intensive industries decline, the predominantly less-skilled workforce in these industries are likely to be unable to transition quickly into the green economy. In the US, empirical evidence shows that for non-green workers, transitioning into a green job is challenging as it requires a fundamentally different skillset (Bergant, Mano, & Shibata, 2022). On the other hand, there will be creation of high-skilled and highly specialised jobs to cater to the green economy.[14] Mid- to high-skilled jobs with adjacent skills and tasks will also be augmented.[15]

Socio-demographic changes will also shape the future of the labour market. Malaysia is rapidly ageing and is expected to be an aged society in about two decades from now.[16] This could lead to human capital constraints, as the prime working age population shrinks, and the old age dependency ratio doubles[17] in the next 30 years. If the majority of workforce remains employed in semi-skilled jobs with no accompanying rise in technological adoption, a shrinking workforce[18] that is not met through immigration, could lead to slower or even negative potential growth.

Conversely, an aging population could also lead to rising opportunities in the care economy, such as professionals in senior care centres and management of social services. Several aged, more advanced economies such as South Korea, Germany and Japan are already seeing rise in formal long-term care employment (Chart 10) (Jones, 2020; OECD, 2021).

To capitalise on these opportunities, there are several key questions that policymakers will need to reflect on. What will the future of work look like in terms of occupations and skills? How can help be provided for workers to adapt to the ongoing economic shifts? And how can workers' livelihoods be secured in this economic climate?

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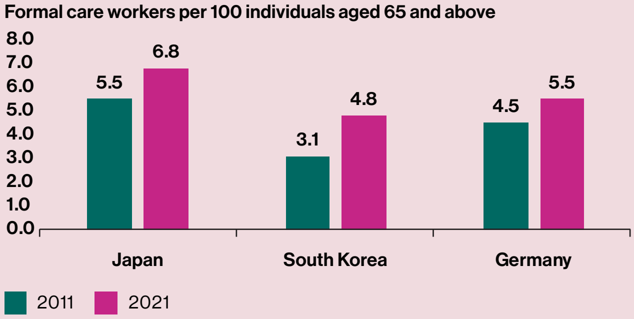
10 Jobs with a high exposure to AI include lawyers, accountants and auditors (Kochhar, 2023; Webb, 2019).
11 'Nearshoring' is when companies relocate production closer to the final customer to better accommodate contingencies from unexpected shocks. 'Reshoring' means relocation to primary domestic production sites, especially in manufacturing.
12 The factors include, among others, availability of productivity-enhancing technology in origin countries, protection of intellectual property, quality control, market access and minimisation of risks (Barcia de Mattos, Dasgupta, Jiang, Kucera, & Schiavone, 2020).
13 For further details, please refer to the box article 'Navigating Malaysia's Economic Transition towards a Decarbonised Future' in Bank Negara Malaysia's Economic and Monetary Review 2022.
14 Examples include climate change specialists.
15 Examples include architects equipped with green building knowledge and skillsets.
16 Based on the United Nations (UN), 'ageing population' is defined as when 7% of the population is aged ≥65 years old, while 'aged population' is when the share is 14%. Using UN data, Malaysia reached ageing population in 2021 and expected to reach aged population in 2042 (Source: United Nations, World Bank, Department of Statistics, Malaysia).
17 Estimated as the ratio of the number of elderly people at an age when they are generally economically inactive (i.e. aged 65 and over), compared to the number of people of working age (i.e. 15-64 years old).
18 Malaysia's working age population share (age 15-64) is forecasted to decline from 70% in 2023 to 66% of the total population by 2050. This reflects larger old age population due to increasing longevity, amid declining fertility rate (Source: United Nations).

Chart 10: Formal Long-term Care Employment



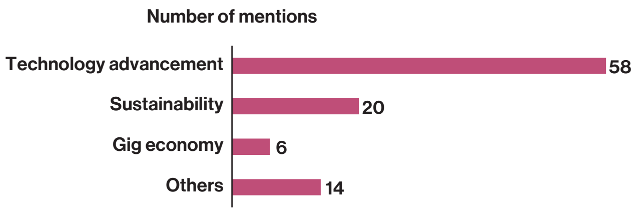
Source: OECD

Firm-level Insights from Bank Negara Malaysia's (BNM) Industrial Engagements

Technology as the key disruptive megatrend for future of work

- Based on BNM's industrial engagements,[19] more than half of the firms identified technological advancements (such as automation and AI) as the most important megatrend over the next three to five years (Chart 11).
  - o This was most prominent among the manufacturing, mainly in the E&E cluster, and services sectors.
  - o Meanwhile, sustainability was principally cited by firms across construction, agriculture and mining sectors – coincidentally some of the hard-to-abate industries.[20]

Chart 11: The Most Important Megatrends that Could Affect Workforce



Note: Other megatrends included work-life balance, ageing population, female labour force participation, brain drain and trade regionalisation.

Source: Regional Economic Surveillance, Bank Negara Malaysia

Mixed responses regarding the impact of megatrends on firms' future demand for labour

- Overall, most firms either believed that megatrends could destroy jobs (43%) or have no impact (43%) on firms' demand for workers in the next five years.
- Most firms that quoted job destructions were in the manufacturing sector, citing pivots away from labour-intensive and administrative tasks.
  - o For example, in E&E industry, AI and automated test equipment could replace the current manual inspection of final products by workers.

[19] Based on field interviews and engagements with 61 firms. Most were in the services (51%) and manufacturing (33%) sectors, and non-SMEs (87%).

[20] Industries where decarbonisation is difficult due to heavy reliance on fossil fuel as feedstock and for energy in their manufacturing processes. Based on the International Energy Agency (IEA), the three criteria to identify hard-to-abate sectors are: (i) long-lived capital assets; (ii) high temperature requirements for their production process; and (iii) trade considerations. For Malaysia, the sectors identified comprise oil and gas, palm oil, construction, steel, cement and chemicals industries.

- However, many firms in the services sector anticipated no impact on a net basis. This was prominent in the hospitality and retail industries, where human interaction would remain crucial.

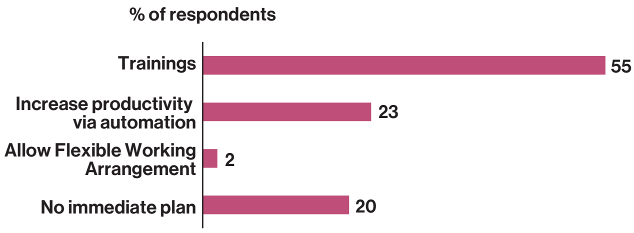
Proliferation of new roles and skillsets on demand following megatrends

- With technology cited as the key megatrend, firms anticipated rising demand for IT skills and digital literacy moving forward, resulting in the creation of new tech-related roles.
  - For example, niche engineering professionals, programmers or technicians to operate advanced technology or software.
  - Others cited the greater need for data analysts and data scientists for supply chain management and production optimisation in the logistics and manufacturing industries.
- Some firms expected higher demand for Environmental, Social and Governance (ESG) related roles, such as green building consultants (construction sector), carbon trading experts (mining sector) and more broadly, an in-house corporate sustainability team.

Firms continued to rely on internal training curricula to prepare for the future of work

- In the transition towards new workforce needs, most firms would train staff to reskill or upskill so that they can be rotated to other positions if needed, thus minimising the risks of being displaced.
- Nevertheless, some firms (20%) have not embarked on any pivot strategy as they did not foresee immediate changes to the workforce due to the megatrends (Chart 12).
- In this regard, more can be done to assist firms in taking proactive measures to prepare for the future of work amid emerging megatrends, which may significantly impact firms' future business operations and hiring strategies.

Chart 12: Current and Future Strategies to Manage Workforce's Transition



Note: Based on responses from field interviews and engagements with 44 firms.

Source: Regional Economic Surveillance, Bank Negara Malaysia

Part III: Labour market policy reforms

It is imperative to roll out reform measures carefully and strategically to tackle existing structural issues, and minimise transitory costs while maximising opportunities from the megatrends. This section discusses five key strategies that would facilitate the transition to an agile, resilient and future-ready workforce.

Strategy 1: Address skills mismatch in the labour market

One effective method to address skills mismatch is to promote greater collaboration between the Government, industry and academia in enhancing the quality of higher education syllabus and workforce training. In particular, the industry should be encouraged and provided the opportunities to play a greater role. This is as they are more up to date with the latest industry trends, technologies and products, as well as critical skills that workers should have to meet industry needs. These insights are crucial in revamping the higher education curriculum to produce graduates who not only have solid technical skills, but also strong cognitive and soft skills.

The Penang Skills Development Centre (PSDC), a tripartite training programme in the E&E industry in Malaysia which adopts a collaborative framework in workforce upskilling and reskilling, has proven effective[21] in raising the quality of training and productivity. Under this framework, the Government provides accreditation to training programmes and funding for selected PSDC initiatives; the industry identifies skills and learning outcomes to guide the content of training modules and workshops; and the academia collaborates with industry to reskill and train prospective workers for subsequent hiring. This model can be expanded and emulated across other sectors. Similarly, the Selangor Human Resource Development Centre (SHRDC) is another tripartite partnership model that focuses on developing talent for the Fourth Industrial Revolution (4IR). In this model, the training is provided by SHRDC directly to firms' employees. There is also merit in encouraging more large firms to share their know-how with small and medium enterprises (SMEs). For instance, in South Korea, the National Human Resources Development Consortium provides financial incentives for large companies, business associations and universities to set up consortiums with SMEs and share their expertise in vocational training, equipment and training facilities (OECD, 2020).

While efforts are directed to developing the requisite training programmes, structured assessment framework should be in place to evaluate the effectiveness of the training initiatives. This allows policymakers to identify ineffective programmes, refine and improve existing ones as well as help design new programmes to address existing gaps (Dar, 2002).

Strategy 2: Upskill the workforce for the future

Given the ongoing economic shifts, upskilling policies should enable workers to pivot and adapt, and promote lifelong learning. Hence, a universal individual-centric training system could be established to ensure that every working-age individual has access to training courses, even without formal attachment to an employer. This can complement an employer-centric training model, whereby the employer makes training decisions based on business needs. For example, Singapore's SkillsFuture Credit, a subsidy provided to all Singaporeans aged 25 years and above, promotes lifelong learning by providing workers with easy access to training and education for all ages and stages of career, even during crisis periods.

Additionally, it is crucial to develop a data-driven approach to identify emerging skills and jobs to meet the rapidly-evolving economic needs. Analysis from advanced economies is also beneficial to anticipate the possible future disruptions in the domestic labour market. Such efforts are critical to guide shifts in training programmes to remain relevant, and individuals in identifying the skills or knowledge to acquire to meet the emerging economic needs. Currently, there are existing initiatives which outline the types of skills and knowledge required for different occupations.[22] These initiatives are useful but can be further harmonised through the creation of a single national competency standards for skills and knowledge. More importantly, the competency standards need to be continuously updated to include emerging industry needs.

Strategy 3: Create high-skilled jobs

In the short-term, it is critical to encourage more widespread adoption of automation and digitalisation among firms, especially SMEs. Efforts to automate and digitalise will directly create more high-skilled jobs such as technicians and IT professionals. Furthermore, greater technological adoption will increase firms' productivity and promote their ability to pivot to higher value-added activities, which will in turn create more high-skilled, high-paying jobs.

Looking at a longer time horizon, it is also key to attract high quality investments for a more sustainable and organic creation of high-skilled jobs. The government has introduced various blueprints, including the New Investment Policy (NIP), New Industrial Master Plan (NIMP) 2030[23] and National Energy Transition Roadmap (NETR). These national strategic initiatives will promote economic activities with higher complexity and higher productivity. However, to realise this, the implementation of these national plans would need to be expedited, with proper monitoring and periodic reviews, to ensure the desired outcomes are achieved.

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21 In 2021, 41% of PSDC graduates successfully secured employment (Penang2030, 2022).

22 For example, SOCSO's Malaysian Skills, Occupation, Qualification and Competencies (MSOC) taxonomy for different occupations, HRD Corp's Industrial Skills Framework for select industries and National Skills Registry by TalentCorp.

23 Under the NIMP, Mission 2 outlines specific strategies to provide practical and firm-specific end-to-end automation and digitalisation solutions that are aligned to the state of readiness and needs of SMEs.

Strategy 4: Design policies on foreign workers that are in line with development needs
In the short-term, the key challenge is to reduce the country's dependency on low-skilled, low-wage foreign workers. The government intends to address this issue with the Multi-Tier Levy Mechanism (MTLM).[24] However, this transition needs to be orderly to avoid significant disruptions in business activities. Hence, complementary measures to support firms to automate and adopt technology are crucial during the transition period.

In the medium- to long-term, a comprehensive rethink of immigration policies is necessary to ensure that Malaysia's labour needs can be fulfilled. The lack of certain high-skilled professionals such as mining engineers and ICT professionals may constrain expansion in select high growth areas. A targeted policy to attract high-skilled foreign talent to fill gaps in sectors where the supply of high-skilled workers is insufficient may be required. Parallel to this, the creation of more high-skilled jobs (as elaborated in Strategy 3), and transfer of knowledge from foreign to local workers will safeguard the interest of local workers.

Strategy 5: Fair compensation and social protection for workers
Efforts are also needed to ensure that workers are paid fairly commensurate with their productivity. Existing wage policies would need to be enhanced. In its current form, the minimum wage is unable to lift wages of high-skilled workers, especially graduates, amid issues of mismatches and underemployment. Exploring a differentiated minimum wage by skill level, which could accord graduates a higher minimum wage, may be an option. For instance, in Slovakia, jobs are divided into six categories by skill level, with higher minimum wages paid to workers in higher-skilled jobs.

An enhancement of the current Productivity-Linked Wage System (PLWS), which aims to establish a closer link between wages and productivity, is equally important. Given the low take-up rate,[25] adoption of a star-rating system[26] to PLWS employers could improve the attractiveness of the policy and promote competition among firms. In addition, frequent and consistent reviews must be conducted to ensure that the measure between wage and productivity is up to date with industry benchmarks and standards of living.

The Progressive Wage Model (PWM), which will begin its pilot in June 2024, could also help lift wages. It helps address market failures by nudging private firms to pay more competitively, including for fresh graduates by encouraging higher entry-level pay. Nevertheless, this solution is only temporary. To increase wages sustainably in the long-term, long-standing issues affecting labour demand and supply need to be addressed. This includes creation of high-skilled jobs and addressing skills mismatch, as elaborated in the earlier strategies.

Finally, the current social protection framework should consider new forms of employment in the informal sector, such as flexible work arrangements and gig work. Universal registration into social insurance schemes, such as those under EPF and SOCSO, can be a precursor for greater penetration of social insurance in the informal sector.

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[24] As mentioned in Budget 2024, a multi-tiered levy system for foreign workers will be implemented to reduce dependency on foreign workers. Higher levy rates will be imposed for employers with a large foreign workforce.
[25] Currently, the PLWS system covers only around 6 million workers, or about 39% of total employment.
[26] Firms would be rated on various criteria, including having best and fair practices in wage-setting. This will serve as a signal to prospective employees and help attract workers.

Lessons from the Global Economy on Labour Market Reforms

As Malaysia embarks on a journey of labour market reforms, it will be important for policymakers to also learn from the best practices of other countries. This will help ensure the success of the reforms.

Table 2: Cross-country Example of Policies Related to Labour Market

Country	Cross-country Policies
Strategy 1: Address skills mismatch in the labour market	
Korea	National Human Resources Development Consortium (also known as the CHAMP programme) promotes greater collaboration between the industry, academia and the Government. • Provides financial incentives for large companies, business associations and universities to set up consortiums with SMEs and share their know-how in vocational training, equipment and training facilities.
Strategy 2: Upskill the workforce for the future	
Singapore	SkillsFuture Singapore creates and updates training programmes guided by emerging trends across industries. • A national initiative to equip Singaporeans with the skills and knowledge needed for the future of work through a range of programmes such as training, career guidance and job transition mapping.
UK	UK's National Occupational Standards serves as a national standard of competency that is specified by industry and frequently updated. • A document that describes the skills, knowledge and understanding, as well as perfomance criteria to be competent at a job. This list is regularly updated for emerging trends and compiled in consultation with the industry.
Strategy 3: Create high-skilled jobs	
Singapore	SMEs Go Digital programme assists SMEs that are digitalising their businesses with tailored support. • Provides tailored solutions to SMEs that are at different stages of development. *SMEs who are new to digitalisation, are provided with basic digitalisation solutions such as accounting and payroll software. More advanced SMEs are provided with sophisticated initiatives, such as to participate in e-commerce platforms to expand their market overseas without a need for physical presence.* • Provide SMEs with access to a shared pool of digital consultants, for digital advisory and project management services. *These services range from digital needs analysis, basic cybersecurity risk advisory, establishing the digitalisation project implementation plan and managing the progress of the project.*
Germany	Mittelstand 4.0 Centres of Excellence provide highly accessible and practical assistance to SMEs nationwide. • Create a regional point of contact for SMEs from start to finish in their digitalisation journey. *The Centres of Excellence help to develop firm-specific digitalisation roadmaps, support firms as they implement the strategies and provide technical advice on the economic viability of strategies deployed by firms.* • All learning and demonstration are modelled upon real companies with real outcomes. *Each of the 29 centres in different regions across Germany has demonstration factories that allow firms to test their own technical solutions, such as production chain controlled by software. This feature enables firms to gain a realistic impression of how digital technologies could transform their operations.*
Strategy 4: Design policies on foreign workers that are in line with development needs	
Australia	Australia's Migration Strategy introduces immigration policies that are aligned to Australia's priorities and attracts skilled migration. • Migration strategy that is guided by important national objectives, including to raise living standards of the people. *The Migration Strategy aims to introduce new visa pathways that will allow immigration to raise productivity, tackle needs of ageing population, green and digital transition by encouraging skilled migrant workers.* • Migrant policies that create fair play in the labour market. *The income threshold of the Temporary Skilled Migration was increased, which ensures that firms do not abuse it to hire low-skilled workers. There are also plans to introduce work visas that are not tied to an employer, which will allow migrant workers to change jobs when there is illegal exploitation.*
Strategy 5: Fair compensation and social protection for workers	
India	Aadhar improves the inclusivity and coverage of social protection by leveraging on national-ID linked digital accounts for assistance coverage and delivery. • Auto-enrollment of national Indian citizens into Aadhar facilitated mobilisation of assistance to informal and remote workers. The programme has a penetration rate of 99% of the population and interoperable across 29 datasets for delivery of multiple public service programmes.

Source: National authorities

Conclusion

The COVID-19 experience has shown that labour market dislocations can accelerate within a short period of time, especially during economic shocks. At the same time, emerging megatrends are both augmenting and disrupting the labour market. The negative impact of these forces on employment and income prospects can be more severe given the prevailing structural impediments in the labour market.

Conversely, the megatrends also present various opportunities for workers, including raising their income, provided the structural issues are addressed. As such, this calls for an urgent need for a comprehensive reform to Malaysia's labour market. The policy strategies should aim to reduce skills mismatch, upskill the workforce for the future, create high-skilled jobs, reduce dependency on low-skill, low-wage foreign workers, attract foreign high-skilled talent and ultimately, lift wages and income of the people.

The way forward is to expedite the implementation of national strategic initiatives that will provide high-paying employment opportunities. Concurrently, initiatives that enhance workforce resilience are needed given the highly challenging economic prospects. Inevitably, there will be short-term transitory costs and challenges. Recognising this, measures can be put in place to assist those who are affected or vulnerable to changes arising from the labour market reforms.

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The Ringgit in Perspective

Exchange rate movements are influenced by a complex interplay of short-term and long-term factors. In the short run, cyclical fluctuations in the domestic and global economies, interest rate differentials and geopolitical developments can affect the exchange rate. Over the longer term, however, exchange rates are anchored by more fundamental determinants, such as a nation's relative labour productivity, investment environment, and overall economic competitiveness.

When looking at the recent movements of the ringgit since 2022, the ringgit has been predominantly influenced by cyclical factors. The dominant short-term factor has been the aggressive monetary policy tightening by the US Federal Reserve (Fed) and shifting financial market expectations surrounding the outlook for US monetary policy. The Fed raised its policy rate by a cumulative 525 basis points over the 2022–23 period to address the higher inflationary pressures in the post-pandemic environment. Consequently, demand for US dollars rose significantly, leading to a rapid and strong appreciation of the US dollar, and a depreciation of most regional currencies, including the ringgit.[1] Many other countries, including those in the region, also increased policy interest rates by a larger magnitude than Malaysia, resulting in some appreciation of their currencies against the ringgit.

During this two year period, Malaysia's economic fundamentals have remained sound. Malaysia has achieved resilient economic growth with a declining inflation trend. Additionally, Malaysia's external sector has demonstrated resilience, as evidenced by a current account surplus, manageable external debt levels, a net external asset position, and adequate international reserves. Consequently, at the current level, the ringgit is deemed to be undervalued.

As these external factors are only short-term in nature, financial markets expect the pressure on the ringgit to abate. The Government, in collaboration with Bank Negara Malaysia (BNM) have intensified efforts to encourage repatriation and conversion of foreign investment income by Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs). The GLICs and GLCs should also hedge their foreign currency assets to better manage their foreign currency exposure. This is in addition to stepping up engagements with investors and corporates. BNM actively engages with resident exporters and monitors their conversion of export proceeds to ringgit, because conversion behaviour has an impact on the exchange rate. These actions are contributing to greater and sustained inflows, lending support to a firmer ringgit. BNM also continues to advocate greater use of local currency when settling export or import payments either via the Local Currency Settlement Framework or normal correspondent banking channels to reduce US dollar dependence. More broadly, BNM has also intensified engagements with various stakeholders – including business owners, financial market analysts and politicians – to further deepen our understanding of challenges faced in this environment, as well as to share BNM's perspectives and responses to manage the pressures on the ringgit.

Beyond these short-term measures, the Government is pursuing structural reforms that will ensure fiscal sustainability, new growth areas and thus increased growth potential, as well as enhanced labour productivity and competitiveness. Most of these have been clearly articulated in the Government's economic framework, the Federal Government Budget documents and in Malaysia's economic master plans, namely the New Industrial Master Plan 2030 (NIMP 2030) and National Energy Transition Roadmap (NETR). The Government is also committed to ensuring fiscal sustainability through several fiscal reform initiatives, including the Public Finance and Fiscal Responsibility Act (FRA) and the Medium-Term Fiscal Framework (MTFF), as well as efforts to broaden and diversify its revenue base and expenditure optimisation, such as through a more targeted subsidy approach. The execution of these reforms should bring in more investment flows into Malaysia, and thus provide more enduring support for the ringgit in the long run.

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[1] The US Dollar Index (DXY) which measures the value of the US dollar against the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona and Swiss franc, appreciated by 5.9% over the 2022–23 period.

Annex

Annex

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Table A.1

Gross Domestic Product by Kind of Economic Activity at Constant 2015 Prices

	2020	2021	2022	2023*p*	2024*f*
	RM million				
Agriculture	99,109	99,000	99,073	99,791	99,292
Mining and quarrying	92,879	93,717	96,199	97,199	100,567
Manufacturing	307,606	336,839	364,131	366,703	379,429
Construction	53,616	50,889	53,441	56,689	60,491
Services	777,693	794,552	881,310	927,826	978,936
Plus: Import duties	15,346	15,646	16,785	18,339	18,367
GDP at purchasers' prices[1]	**1,346,249**	**1,390,644**	**1,510,939**	**1,566,546**	**1,637,082**
	Annual change (%)				
Agriculture	-2.4	-0.1	0.1	0.7	-0.5
Mining and quarrying	-9.7	0.9	2.6	1.0	3.5
Manufacturing	-2.7	9.5	8.1	0.7	3.5
Construction	-19.3	-5.1	5.0	6.1	6.7
Services	-5.2	2.2	10.9	5.3	5.5
Plus: Import duties	-5.2	2.0	7.3	9.3	0.2
GDP at purchasers' prices	**-5.5**	**3.3**	**8.7**	**3.7**	**4.0 - 5.0**

[1] Numbers may not necessarily add up due to rounding.
p Preliminary
f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table A.2

Growth in Manufacturing Production (2015=100)

	2020	2021	2022	2023	2021	2022	2023
	Index				Annual change (%)		
Electrical and electronics products cluster	**128.7**	**147.7**	**168.8**	**165.9**	**14.7**	**14.3**	**-1.7**
Computer, electronics and optical products	130.9	151.3	175.4	171.9	15.6	16.0	-2.0
Electrical equipment	120.6	135.3	148.4	147.2	12.2	9.7	-0.8
Machinery & equipment	122.8	137.1	146.7	146.1	11.6	7.0	-0.4
Primary-related cluster	**114.8**	**128.8**	**131.2**	**129.9**	**12.2**	**1.9**	**-1.0**
Coke and refined petroleum products	101.2	112.9	120.0	118.1	11.6	6.3	-1.6
Chemical and chemical products	109.2	119.5	124.4	129.7	9.4	4.1	4.2
Pharmaceutical products	138.2	159.9	169.7	168.4	15.7	6.1	-0.7
Rubber and plastic products	150.2	178.4	161.2	152.6	18.8	-9.6	-5.3
Wood products	104.0	113.6	121.2	115.8	9.2	6.7	-4.5
Paper and paper products	116.5	133.8	143.9	149.7	14.9	7.5	4.1
Furniture	122.8	118.3	129.5	123.5	-3.7	9.5	-4.6
Construction-related cluster	**104.4**	**108.2**	**116.5**	**122.5**	**3.7**	**7.6**	**5.2**
Other non-metallic mineral products	103.1	104.2	113.7	118.8	1.0	9.1	4.5
Basic metals	111.0	114.2	121.9	125.5	2.8	6.8	3.0
Fabricated metal products, except machinery and equipment	101.3	107.7	115.3	123.5	6.3	7.1	7.1
Consumer-related cluster	**114.2**	**116.4**	**128.3**	**134.1**	**2.0**	**10.2**	**4.6**
Food products	121.0	123.2	128.7	135.5	1.8	4.5	5.3
Transport equipment and other manufactures	108.7	110.1	130.0	135.3	1.3	18.1	4.1
Beverages	108.7	119.4	135.3	137.7	9.9	13.3	1.8
Tobacco products	95.4	83.6	102.2	116.4	-12.4	22.1	13.9
Textiles, wearing apparel, leather products and footwear	110.3	118.4	125.0	126.4	7.3	5.6	1.1
Total	**116.9**	**128.1**	**138.5**	**139.5**	**9.5**	**8.2**	**0.7**

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table A.3

Services Sector Performance at Constant 2015 Prices

	2020	2021	2022	2023*p*	2020	2021	2022	2023*p*
	Annual change (%)				Share to GDP (%)			
Services	**-5.2**	**2.2**	**10.9**	**5.3**	**57.8**	**57.1**	**58.3**	**59.2**
Wholesale and retail trade	-5.8	2.0	13.5	5.9	17.0	16.8	17.5	17.9
Government services	5.0	5.4	5.0	5.5	9.3	9.5	9.1	9.3
Finance and insurance	2.9	10.1	0.8	-2.0	7.1	7.6	7.1	6.7
Information and communication	5.9	6.1	5.2	3.6	6.6	6.8	6.6	6.6
Other services	-10.1	-2.9	9.3	6.2	4.7	4.5	4.5	4.6
Real estate and business services	-14.5	-9.7	22.7	8.8	4.4	3.8	4.3	4.5
Transport and storage	-21.5	1.4	30.8	13.8	3.1	3.1	3.7	4.1
Food & beverages and accommodation	-26.7	-10.4	33.0	7.6	2.7	2.4	2.9	3.0
Utilities	-1.0	2.8	3.4	2.8	2.8	2.8	2.7	2.6

p Preliminary

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Table A.4

GNI by Demand Aggregates

	2020	2021	2022	2023p	2024f
	at Current Prices (RM million)				
Consumption	1,049,319	1,094,514	1,240,646	1,321,012	1,408,995
Private consumption	*865,450*	*897,573*	*1,031,759*	*1,101,420*	*1,181,059*
Public consumption	*183,869*	*196,941*	*208,887*	*219,592*	*227,936*
Investment	296,663	298,437	326,269	350,333	378,056
Private investment	*222,259*	*231,308*	*253,939*	*270,444*	*291,810*
Public investment	*74,405*	*67,130*	*72,330*	*79,889*	*86,246*
Change in stocks[1]	-17,816	43,974	94,811	60,290	22,543
Exports of goods and services	873,477	1,093,895	1,378,452	1,247,026	1,348,041
Imports of goods and services	783,152	981,922	1,248,820	1,156,014	1,225,086
GDP at purchasers' value	1,418,491	1,548,898	1,791,358	1,822,647	1,932,549
Balance of primary income	-28,520	-42,153	-59,414	-55,050	-68,288
GNI (Gross national income)	1,389,971	1,506,745	1,731,944	1,767,598	1,864,261
	at Constant 2015 Prices (RM million)				
Consumption	982,468	1,009,024	1,108,917	1,159,811	1,220,688
Private consumption	*802,747*	*817,756*	*908,974*	*951,995*	*1,006,158*
Public consumption	*179,721*	*191,268*	*199,943*	*207,816*	*214,530*
Investment	281,175	278,982	297,816	314,132	333,465
Private investment	*210,653*	*216,308*	*231,830*	*242,486*	*257,398*
Public investment	*70,522*	*62,674*	*65,985*	*71,646*	*76,068*
Change in stocks[1]	-4,464	19,060	21,465	19,215	7,974
Exports of goods and services	830,157	984,094	1,126,661	1,037,949	1,079,058
Imports of goods and services	743,087	900,516	1,043,918	964,560	1,004,103
GDP at purchasers' value	1,346,249	1,390,644	1,510,939	1,566,546	1,637,082
Balance of primary income	-13,784	-20,867	-32,569	-27,103	-35,013
GNI (Gross national income)	1,332,466	1,369,777	1,478,370	1,539,442	1,602,069

[1] Includes statistical discrepancy
p Preliminary
f Forecast

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table A.5

Savings-Investment Gap

	2019	2020	2021	2022	2023p
	RM million				
Gross national savings	371,322	337,938	402,589	476,178	433,405
(as % of GNI)	25.2	24.3	26.7	27.5	24.5
Gross domestic capital formation	318,405	278,847	342,411	421,080	410,623
(as % of GNI)	21.6	20.1	22.7	24.3	23.2
Balance on current account	52,918	59,091	60,178	55,098	22,781
(as % of GNI)	3.6	4.3	4.0	3.2	1.3

p Preliminary

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Table A.6

Balance of Payments[1]

Item (Net)	2019	2020	2021	2022	2023*p*	2024*f*
	RM million					
Goods[2]	**124,738**	**137,486**	**177,634**	**186,029**	**132,887**	**163,821**
Services	**-10,875**	**-47,161**	**-65,661**	**-56,397**	**-41,875**	**-40,866**
Transportation	-25,925	-27,427	-31,863	-34,045	-30,629	-34,587
Travel	30,833	-7,569	-14,857	-1,156	16,965	33,986
Other services	-15,072	-11,551	-18,037	-20,531	-27,437	-39,530
Government goods and services n.i.e.	-711	-614	-904	-665	-775	-735
Balance on goods and services	**113,863**	**90,325**	**111,973**	**129,632**	**91,012**	**122,955**
Primary income	**-39,496**	**-28,520**	**-42,153**	**-59,414**	**-55,050**	**-68,288**
Compensation of employees	-9,229	-8,061	-6,659	-7,235	-8,161	-8,617
Investment income	-30,267	-20,459	-35,494	-52,179	-46,888	-59,671
Secondary income	**-21,450**	**-2,714**	**-9,642**	**-15,120**	**-13,181**	**-13,184**
Balance on current account	**52,918**	**59,091**	**60,178**	**55,098**	**22,781**	**41,483**
% of GDP	*3.5*	*4.2*	*3.9*	*3.1*	*1.2*	*1.8 ~ 2.8*
Capital account	**371**	**-419**	**-469**	**-454**	**-246**	**-**
Financial account	**-38,024**	**-77,396**	**16,242**	**12,356**	**-18,937**	**-**
Direct investment	6,555	3,111	31,065	15,920	4,605	-
Assets	*-31,154*	*-13,808*	*-53,200*	*-48,933*	*-33,010*	-
Liabilities	*37,709*	*16,919*	*84,265*	*64,853*	*37,615*	-
Portfolio investment	-32,403	-49,584	18,802	-50,560	-45,679	-
Assets	*-46,919*	*-60,695*	*-35,788*	*-30,454*	*-52,207*	-
Liabilities	*14,517*	*11,110*	*54,590*	*-20,105*	*6,529*	-
Financial derivatives	-478	407	-2,250	-2,212	-3,879	-
Other investment	-11,697	-31,330	-31,375	49,208	26,015	-
Assets	*-20,152*	*-5,436*	*-51,600*	*-8,620*	*4,361*	-
Liabilities	*8,454*	*-25,894*	*20,225*	*57,828*	*21,654*	-
Balance on capital and financial accounts	**-37,653**	**-77,815**	**15,774**	**11,902**	**-19,183**	**-**
Net errors and omissions[3] **(E&O)**	**-6,849**	**-572**	**-30,266**	**-13,641**	**-24,210**	**-**
Overall balance	**8,416**	**-19,296**	**45,686**	**53,359**	**-20,612**	**-**
Bank Negara Malaysia international reserves, net[4]						
USD million	103,599	107,621	116,876	114,641	113,465	-
RM million	424,032	432,313	486,790	503,272	520,802	-
Foreign exchange revaluation gain (+) / loss (-)	-3,895	-1,079	11,007	7,890	24,089	-
Reserves as months of imports of goods and services[5]	5.8	6.6	5.9	4.8	5.4	-
Reserves as months of retained imports	7.5	8.4	7.7	6.3	7.0	-

1 In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).
2 Adjusted for valuation and coverage of goods for processing, storage and distribution.
3 As at 1Q 2018, the net E&O excludes reserves revaluation changes. This practice is backdated to 1Q 2010.
4 All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain /loss has been reflected accordingly in Bank Negara Malaysia's audited accounts.
5 For further details, please refer to "Expansion of the Measure on Reserves Coverage of Imports - from Retained Imports to Imports of Goods and Services" article in BNM's Quarterly Bulletin for the Fourth Quarter of 2021.

p *Preliminary*

f *Forecast*

n.i.e. Not included elsewhere.
Note: Numbers may not add up due to rounding.
Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.

Source: Department of Statistics Malaysia and Bank Negara Malaysia

Table A.7

Gross Exports

	2021	2022	2023p	2021	2022	2023p	2021	2022	2023p
	RM million			Annual change (%)			% share		
Manufactures	**1,068,431**	**1,304,668**	**1,216,904**	**25.8**	**22.1**	**-6.7**	**86.1**	**84.2**	**85.4**
of which:									
Electrical and electronic products	*455,953*	*592,956*	*575,455*	*18.0*	*30.0*	*-3.0*	*36.7*	*38.3*	*40.4*
Semiconductors	*281,393*	*387,338*	*387,452*	*17.7*	*37.7*	*0.0*	*22.7*	*25.0*	*27.2*
Office machines and automatic data processing equipment	*54,316*	*59,136*	*52,642*	*19.6*	*8.9*	*-11.0*	*4.4*	*3.8*	*3.7*
Electrical machinery, apparatus and appliances, and parts	*67,811*	*84,092*	*78,794*	*17.9*	*24.0*	*-6.3*	*5.5*	*5.4*	*5.5*
Telecommunications and sound-recording and reproducing equipment	*52,433*	*62,390*	*56,568*	*18.5*	*19.0*	*-9.3*	*4.2*	*4.0*	*4.0*
Petroleum products	96,206	161,205	143,495	55.4	67.6	-11.0	7.8	10.4	10.1
Chemicals and chemical products	70,683	80,579	71,455	39.3	14.0	-11.3	5.7	5.2	5.0
Manufactures of metal	61,557	63,551	56,333	67.1	3.2	-11.4	5.0	4.1	4.0
Machinery, equipment and parts	49,922	60,409	57,249	26.6	21.0	-5.2	4.0	3.9	4.0
Optical and scientific equipment	46,928	56,632	54,575	11.2	20.7	-3.6	3.8	3.7	3.8
Rubber products	64,615	28,790	21,337	45.9	-55.4	-25.9	5.2	1.9	1.5
Palm oil-based manufactured products	32,704	41,385	31,798	55.7	26.5	-23.2	2.6	2.7	2.2
Processed food	24,600	28,414	30,309	15.6	15.5	6.7	2.0	1.8	2.1
Transport equipment	15,914	18,988	17,501	-13.8	19.3	-7.8	1.3	1.2	1.2
Agriculture	**98,093**	**120,903**	**94,235**	**36.8**	**23.3**	**-22.1**	**7.9**	**7.8**	**6.6**
of which:									
Palm oil and palm oil-based agricultural products	*75,811*	*96,600*	*70,298*	*44.9*	*27.4*	*-27.2*	*6.1*	*6.2*	*4.9*
Sawn timber and moulding	3,272	3,592	3,145	5.0	9.8	-12.5	0.3	0.2	0.2
Natural rubber	4,568	4,592	3,714	39.0	0.5	-19.1	0.4	0.3	0.3
Minerals	**69,757**	**117,346**	**105,449**	**19.4**	**68.2**	**-10.1**	**5.6**	**7.6**	**7.4**
of which:									
Liquefied natural gas (LNG)	38,193	68,002	59,602	27.9	78.1	-12.4	3.1	4.4	4.2
Crude petroleum	18,372	31,847	28,733	-2.5	73.4	-9.8	1.5	2.1	2.0
Others	**4,740**	**7,092**	**9,016**	**13.1**	**49.6**	**27.1**	**0.4**	**0.5**	**0.6**
Total	**1,241,022**	**1,550,009**	**1,425,603**	**26.1**	**24.9**	**-8.0**	**100.0**	**100.0**	**100.0**

p Preliminary

Source: Department of Statistics, Malaysia

Table A.8

Gross Imports

	2021	2022	2023p	2022	2023p	2023p
	RM million			Annual change (%)		% share
Capital goods	**103,823**	**120,231**	**128,739**	**15.8**	**7.1**	**10.6**
Capital goods (except transport equipment)	98,779	108,072	116,425	9.4	7.7	9.6
Transport equipment industrial	5,044	12,160	12,314	141.1	1.3	1.0
Intermediate goods	**545,801**	**706,551**	**620,950**	**29.5**	**-12.1**	**51.3**
Food and beverages, mainly for industry	27,144	33,305	28,415	22.7	-14.7	2.3
Industrial supplies	268,749	311,815	281,769	16.0	-9.6	23.3
Fuel and lubricants	51,126	114,631	109,564	124.2	-4.4	9.0
Parts and accessories of capital goods (except transport equipment)	170,721	206,050	154,998	20.7	-24.8	12.8
Parts and accessories of transport equipment	28,061	40,750	46,204	45.2	13.4	3.8
Consumption goods	**83,893**	**104,017**	**104,099**	**24.0**	**0.1**	**8.6**
Food and beverages, mainly for household consumption	36,814	46,394	48,461	26.0	4.5	4.0
Transport equipment non-industrial	1,700	1,807	1,547	6.2	-14.4	0.1
Consumer goods, n.e.s	45,379	55,817	54,090	23.0	-3.1	4.5
Others	**253,826**	**363,011**	**357,759**	**43.0**	**-1.4**	**29.5**
of which:						
Dual use goods	19,523	29,859	40,047	52.9	34.1	3.3
Re-exports	229,021	327,975	315,303	43.2	-3.9	26.0
Total	**987,344**	**1,293,811**	**1,211,547**	**31.0**	**-6.4**	**100.0**

p Preliminary
n.e.s. Not elsewhere specified
Note: Numbers may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia

Chart A.9

Malaysia's Trading Partners

Source: Department of Statistics, Malaysia

Table A.10

Outstanding External Debt and Debt Servicing

	2019	2020	2021	2022	2023*p*
	RM million (unless stated otherwise)				
Total external debt	**947,440**	**958,479**	**1,080,355**	**1,144,663**	**1,242,535**
USD million equivalent	*228,823*	*235,569*	*259,389*	*260,743*	*270,705*
% of GDP	*62.6*	*67.6*	*69.7*	*63.9*	*68.2*
Annual change (%)	*2.6*	*1.2*	*12.7*	*6.0*	*8.6*
By instrument					
Bonds and notes	158,920	172,682	197,154	175,984	169,828
Interbank borrowings	199,729	182,078	176,691	218,582	220,739
Intragroup loans	128,734	128,891	144,600	155,151	189,215
Loans	76,260	76,467	73,730	75,996	86,943
NR holdings of domestic debt securities	201,015	220,103	255,056	246,565	269,500
NR deposits	103,014	94,497	99,902	111,572	137,505
IMF allocation of Special Drawing Rights (SDRs)	7,631	7,810	28,150	28,213	29,738
Others[1]	72,137	75,950	105,072	132,601	139,067
Maturity profile					
Medium- and long-term	557,894	591,229	676,155	663,040	724,113
Short-term	389,546	367,250	404,200	481,623	518,422
Currency composition (% share)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Ringgit	*32.6*	*33.9*	*33.1*	*33.1*	*33.1*
US dollar	*51.3*	*51.0*	*51.6*	*50.5*	*49.2*
Japanese yen	*2.9*	*3.2*	*2.6*	*2.3*	*2.4*
Others	*13.2*	*11.8*	*12.6*	*14.0*	*15.3*
Total servicing (including short-term interest payment)	**124,051**	**120,657**	**118,159**	**157,666**	**163,098**
of which:					
Medium- and long-term debt	**118,170**	**117,660**	**116,351**	**152,986**	**150,754**
Repayment[2]	**102,419**	**101,796**	**99,046**	**134,677**	**129,353**
of which:					
Redemption of matured domestic debt securities held by NR	19,731	14,489	19,656	17,536	16,650
Interest payment	**15,750**	**15,865**	**17,305**	**18,309**	**21,402**
of which interest payment on:					
NR holdings of domestic debt securities	6,652	7,502	8,873	9,209	9,549
Debt service ratio (% of exports of goods and services)					
Total debt	**12.6**	**13.8**	**10.8**	**11.4**	**13.1**
Medium- and long-term debt of which:	12.0	13.5	10.6	11.1	12.1
NR holdings of domestic debt securities	2.7	2.5	2.6	1.9	2.1

[1] Comprises trade credits and other debt liabilities
[2] Excludes prepayment
p Preliminary
Note: Numbers may not necessarily add up due to rounding
NR refers to non-residents

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Table A.11

Consumer Price Index

	Weights (%) (2010=100)	2020	2021	2022	2023
		Annual change (%)			
Total	**100.0**	**-1.2**	**2.5**	**3.3**	**2.5**
Food and non-alcoholic beverages	29.5	1.3	1.7	5.8	4.8
Alcoholic beverages and tobacco	2.4	0.3	0.5	0.5	0.6
Clothing and footwear	3.2	-0.8	-0.4	0.1	0.3
Housing, water, electricity, gas and other fuels	23.8	-1.7	1.5	1.8	1.7
Furnishings, household equipment and routine household maintenance	4.1	0.3	1.6	3.5	2.3
Health	1.9	1.1	0.4	0.7	2.2
Transport	14.6	-10.0	11.0	4.7	1.1
Communication	4.8	1.1	0.0	0.0	-3.0
Recreation services and culture	4.8	0.4	0.4	2.3	1.5
Education	1.3	1.0	0.2	1.1	1.9
Restaurants and hotels	2.9	0.5	0.4	5.0	5.6
Miscellaneous goods and services	6.7	2.7	0.5	2.0	2.4

Source: Department of Statistics, Malaysia

Table A.12

Producer Price Index

	Weights (%) (2010=100)	**2020**	**2021**	**2022**	**2023**
		Annual change (%)			
Total	**100.0**	**-2.7**	**9.5**	**7.8**	**-1.9**
Crude materials for further processing	16.4	-12.3	30.3	6.2	-9.6
Foodstuffs and feedstuffs	*3.2*	*-3.7*	*2.9*	*3.4*	*-22.4*
Non-food materials	*13.2*	*-14.2*	*37.0*	*6.8*	*-6.1*
Intermediate materials, supplies and components	56.1	-0.5	7.7	10.9	4.4
Materials and components for manufacturing	*29.6*	*1.9*	*10.4*	*10.1*	*-3.8*
Materials and components for construction	*2.9*	*-0.5*	*0.7*	*4.3*	*5.4*
Processed fuel and lubricants	*11.9*	*-7.0*	*9.7*	*18.0*	*-3.7*
Containers	*0.6*	*-1.3*	*2.8*	*1.8*	*-2.8*
Supplies	*11.2*	*0.3*	*0.7*	*7.8*	*8.3*
Finished goods	27.5	-0.1	-0.2	1.8	-12.1
Finished consumer goods	*11.5*	*0.4*	*2.7*	*2.7*	*1.8*
Capital equipment	*16.0*	*-0.5*	*-2.4*	*1.1*	*4.1*

Source: Department of Statistics, Malaysia

Table A.13

Movements of the Ringgit

	RM to one unit of foreign currency[1]			Annual change (%)		Change (%)
	2005	2022	2023	2022	2023	21 Jul. 05 - Dec. 23
	21 Jul.[3]	End-Dec.				
SDR[2]	5.5049	5.8637	6.1752	-0.4	-5.0	-10.9
US dollar	3.8000	4.4130	4.5915	-5.4	-3.9	-17.2
Singapore dollar	2.2570	3.2819	3.4822	-5.9	-5.8	-35.2
100 Japanese yen	3.3745	3.3264	3.2452	9.1	2.5	4.0
Pound sterling	6.6270	5.3159	5.8484	6.0	-9.1	13.3
Australian dollar	2.8823	2.9887	3.1399	1.3	-4.8	-8.2
Euro	4.6212	4.7038	5.0810	0.5	-7.4	-9.0
100 Thai baht	9.0681	12.7811	13.4353	-2.2	-4.9	-32.5
100 Indonesian rupiah	0.0386	0.0283	0.0297	3.3	-4.7	30.0
100 Korean won	0.3665	0.3494	0.3559	0.4	-1.8	3.0
100 Philippine peso	6.8131	7.9214	8.2782	3.4	-4.3	-17.7
100 New Taiwan dollar	11.8901	14.3265	14.9419	5.0	-4.1	-20.4
Chinese renminbi	0.4591	0.6342	0.6469	3.3	-2.0	-29.0

[1] US dollar rates are the average of buying and selling rates at noon in the Kuala Lumpur Interbank Foreign Exchange Market. Rates for foreign currencies other than US dollar are cross rates derived from rates of these currencies against the US dollar and the RM/US dollar rate

[2] The daily SDR rates published on the BNM website are based on latest available US Dollar SDR rates and prevailing USD/MYR mid-rates. The US Dollar SDR rate in this table for the years 2022 and 2023 is at a 1-day lag due to different time zones.

[3] Ringgit was unpegged against the US dollar.

Source: Bank Negara Malaysia

Table A.14

Consolidated Public Sector Finance

	2020	2021	2022	2023*p*
	RM billion			
Revenue[1]	241.5	237.3	267.6	304.0
% growth	*-4.4*	*-1.7*	*12.8*	*13.6*
Operating expenditure	261.2	272.4	335.4	351.0
% growth	*-12.4*	*4.3*	*23.1*	*4.7*
Current balance of NFPCs[2]	74.4	69.9	127.7	100.2
Total public sector current balance	**54.6**	**34.7**	**60.0**	**53.2**
% of GDP	***3.9***	***2.2***	***3.3***	***2.9***
Development expenditure[3]	119.7	125.7	148.6	190.6
% growth	*-10.9*	*5.0*	*18.2*	*28.3*
General Government[4]	55.1	66.4	74.9	97.4
NFPCs	64.7	59.2	73.7	93.2
COVID-19 Fund	38.0	37.8	31.0	-
Overall balance	**-103.1**	**-128.7**	**-119.6**	**-137.3**
% of GDP	***-7.3***	***-8.3***	***-6.7***	***-7.5***

[1] Excludes transfers within General Government.
[2] Refers to 31 Non-Financial Public Corporations (NFPCs) from 2023 onwards.
[3] Adjusted for transfers and net lending within public sector.
[4] Comprises Federal Government, state and local governments, and statutory bodies.
p Preliminary

Note: Numbers may not add up due to rounding.

Source: Ministry of Finance, Malaysia and Non-Financial Public Corporations (NFPCs)