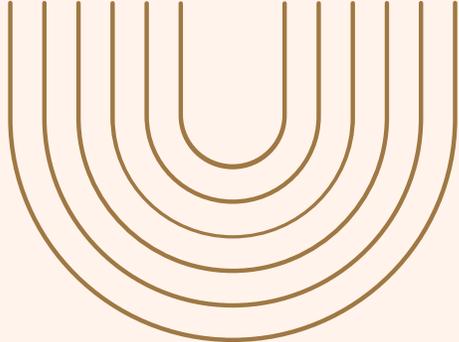


REHDA CEO SERIES 2023: ECONOMY & BUSINESS FORUM

Malaysia's Economic Outlook – Navigating Cross-Current Headwinds And Tailwinds

Lee Heng Guie
Executive Director
7 December 2023



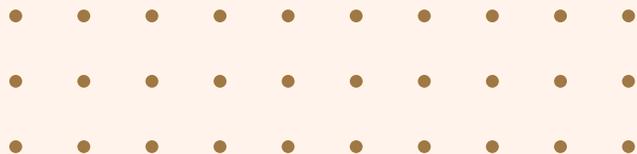


This is What Global Economy Will Look Like in 2024

“Higher for Longer” Interest Rates in Major Economies Mean Global Growth is Likely to Slow Next Year

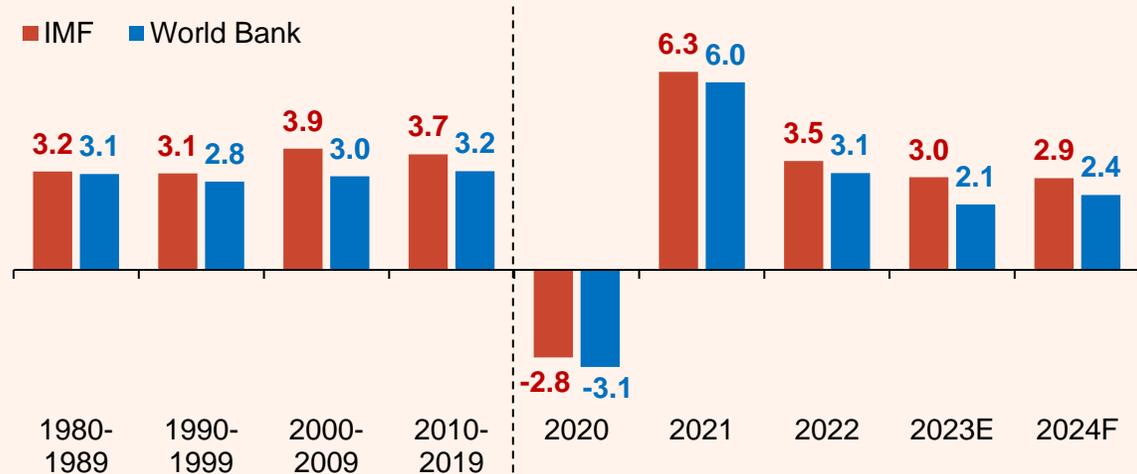
2024 Will Be A Year of Reckoning

- *Will there be a delayed recession in the US?*
- *Will economic risks intensify in China?*
- *“Uncertainty” about global monetary stance*
- *Global climate change*
- *Renewed strength in energy and commodity prices*
- *Geo-economic conflicts as well as non-economic shocks*

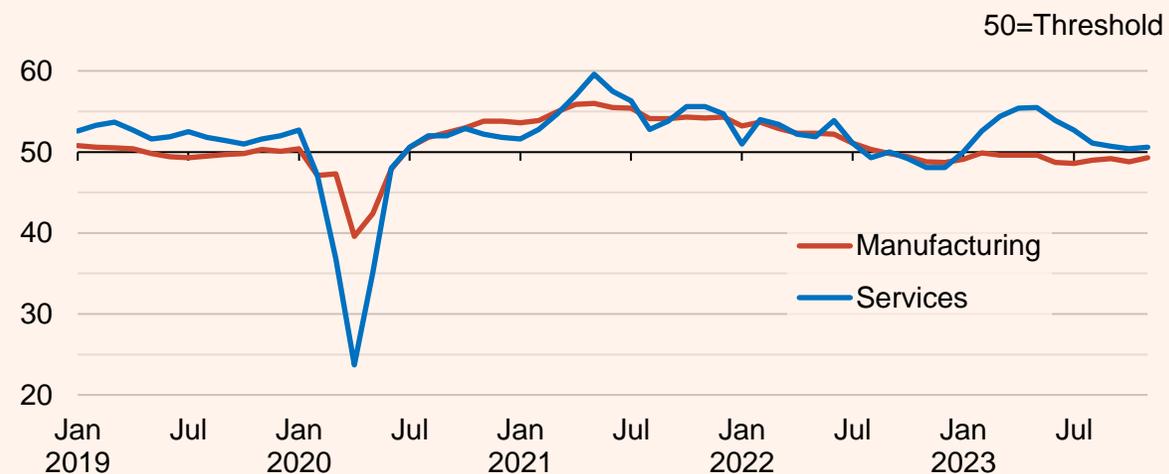


Global growth continues, albeit still weak in 2024

Global real GDP growth (%)



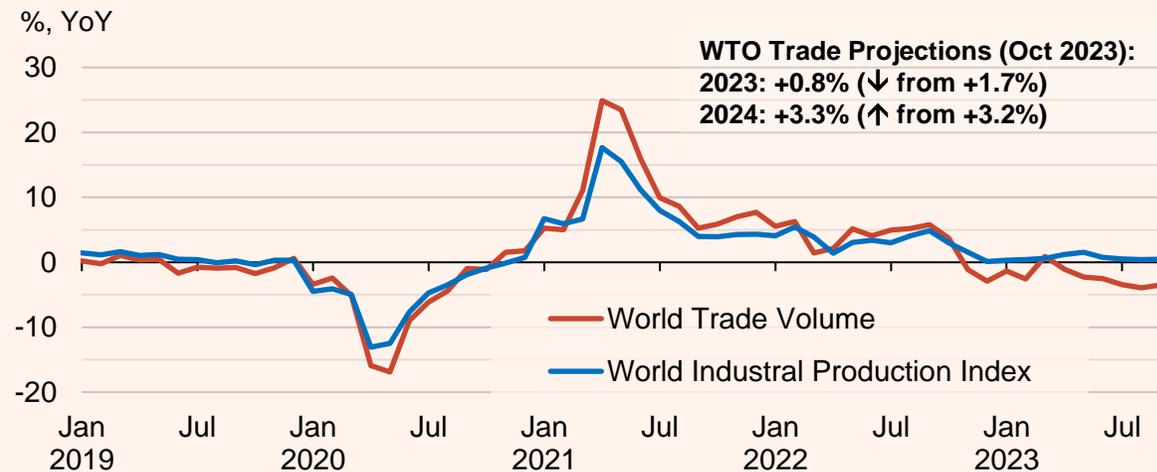
Global PMI: Manufacturing remained subdued; services has edged lower



Global semiconductor prolonged downturn has bottomed out



World trade remains sluggish; lacklustre industrial production



Source: International Monetary Fund (IMF); World Bank (WB); S&P Global; Semiconductor Industry Association; CPB Netherlands

Snapshots of major economies in 2024

A delayed recession in the US economy?

- **Certain favourable economic trends to unwind in 2024** – household savings could run out by 1Q; reinstatement of student loans repayment; fiscal largesse may recede in 2024 as major spending programs (the CHIPS and Science Act and the Infrastructure Investment and Jobs Act) have heavily front-loaded.
- **Lag impact of higher rates** will weigh on consumer spending and business activity. The Fed to start cutting rates in 2Q-3Q 2024.
- Mortgage activity continued to stall, with applications dipping to the slowest weekly pace since 1995.

Will BOJ abandon its negative interest rate policy

- The yen takes a tumble, raising the probability of authorities intervening to support the yen from weakening much further.
- We expect negative interest rates will keep upward pressure on both prices and wages and allow the BOJ to **finally raise rates in the first half of 2024**.
- The rise in interest rates could unwind the yen carry trade and spark a return of Japanese capital to its domestic bond markets, a move could trigger market volatility.

Euro area sinks into recession fears

- Slowing consumer spending and exports
- The ECB held off raising interest rates for the first time in 15 months, keeping it at 4.00% after the Oct's meeting.
- Headline inflation rate has eased from 4.3% yoy in Sep 2023 to 2.9% in Oct.
- The central bank remains committed to bringing inflation down to its 2% target.
- The ECB stands ready to take further action on borrowing costs as inflation is still expected to stay too high for too long.

China: Will economic risks intensify in 2024?

- Economic stabilisation amid stress in property market.
- China plans to provide at least 1 trillion yuan worth of low-cost financing to the nation's urban village renovation and affordable housing programs.
- China's economic 'risks will intensify' in 2024, with EVs, property market, local government debts clouding prospects.
- Local government financing vehicles – created to aid off-budget financing, especially for infrastructure spending – collectively owe an estimated about 60 trillion yuan (US\$8.2 trillion) in debt.

Risks scenarios facing the global economy

1



High interest rates leading a global recession and financial volatility

Moderate probability

High impact

2



Recession in the United States

Moderate probability

High impact

3



Policy failures in China lead to diminished growth prospects

Low probability

High impact

4



Geo-economic rivalry and conflicts

High probability

High impact

5



Extreme weather events / climate change disrupt global supply chain

High probability

Moderately high impact

6



Green technology and technology disruption

Moderate probability

High impact

7



The Ukraine-Russia war spirals into a global conflict

Low probability

High impact

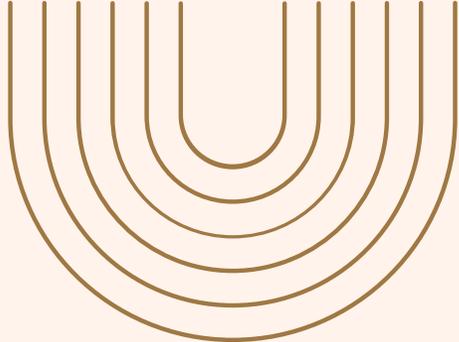
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The Israel-Hamas war escalates into a regional conflict

Low probability

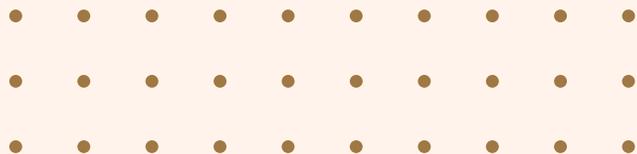
High impact



This is What Malaysia's Economy Will Look Like in 2024

“Levers of change” to Anchor Better Economic Prospects Over Medium-term

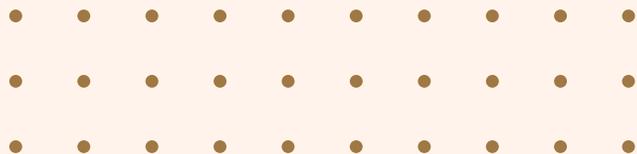
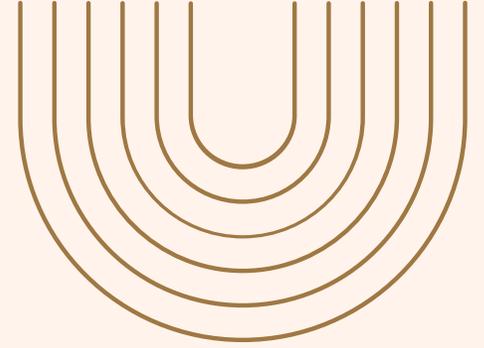
- 2023 was a year of transition and policy-setting. Next step is to implement promised reforms and policies
- MADANI Economy Framework, New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), Mid-Term Review of 12th Malaysia Plan (MTR 12MP) 2021-2025
- Five key risks:
 - (a) The US and China's economic outlook
 - (b) Geo-political rivalries
 - (c) Ineffective implementation of Budget 2024
 - (d) Inflationary risk triggered by subsidy rationalisation
 - (e) Still elevating business costs





Addressing Structural Weaknesses, Issues and Challenges to “Raise the Ceiling” and “Raise the Floor”

- We know what went wrong and what needs to change
- We have to endure the painful transition costs and adjustments when making radical reforms and overhauling the system
- It is a call to action to move the agenda forward; to address a broad spectrum of critical issues that we collectively face; and aim to shed light on what future we face, what future we want and what must be done to get there



Issues and challenges hindering Malaysia's growth path

1



Economic Complexity

Improved marginally

2



Labour Productivity

Slower or stagnated

3



Talent

Shortage and skills mismatch

4



Product & Market diversification

Improved marginally

5



Ease of Doing Business

Need to improve

6



Private Investment

Uneven strength; FDI inflows lagging behind; re-energise DDI

7



Fiscal Space

Limited

8

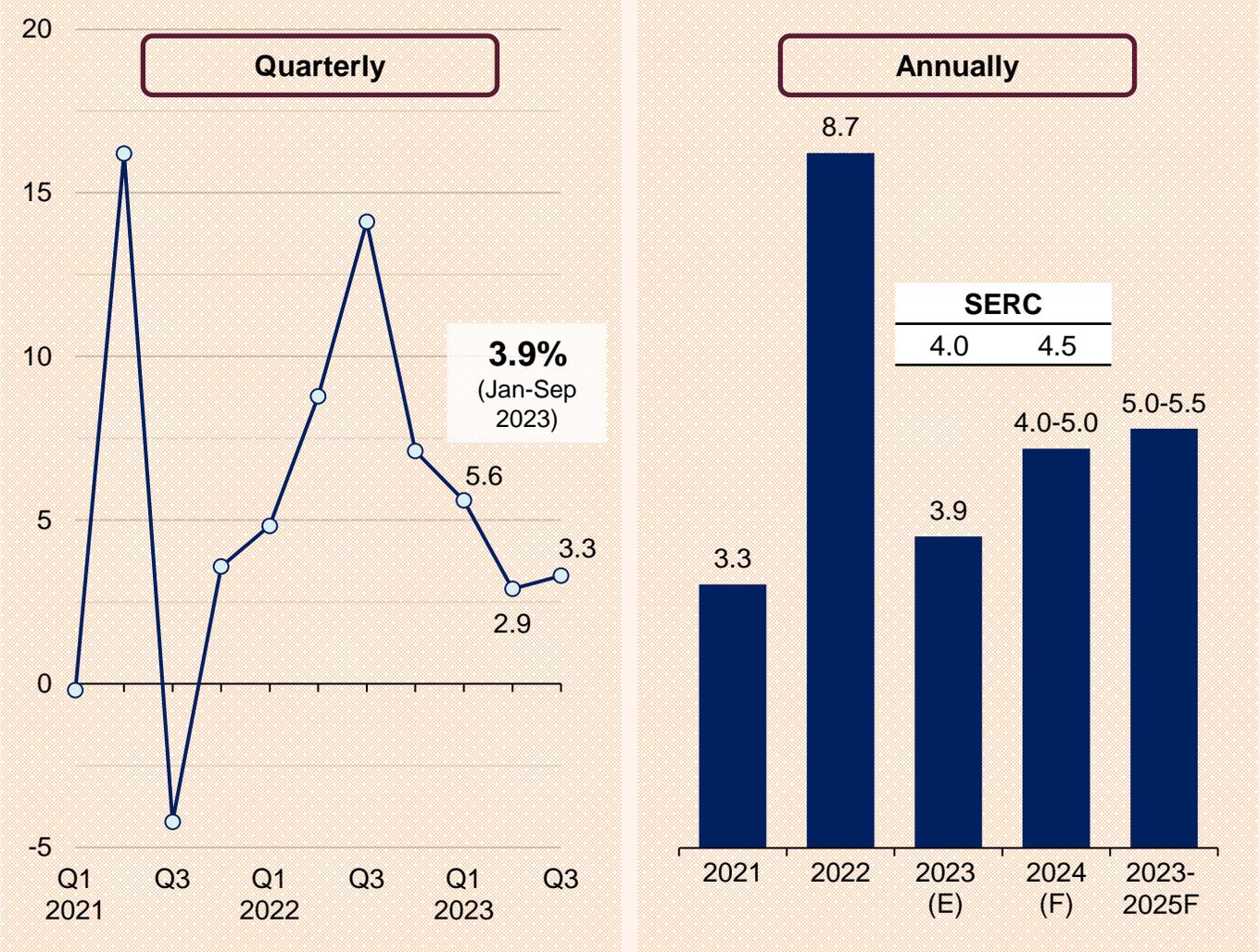


Demographic Trend

Aging society

The Malaysian economy on course, but downside risks remain

Malaysia's real GDP growth (% YoY)



Drivers of Economic Growth in 2024

Positive expansion in all sectors

- Broad-based growth, led by the services sector as intermediate and final services groups, are anticipated to rise further, driven by sustained domestic consumption and improved export activities.
- Recovery in the manufacturing sector, thanks to a gradual recovery in exports of electronics and electrical products.
- Improved growth in the agriculture sector and a turnaround in the mining sector.
- All subsectors of the construction sector will expand.

Can domestic demand continue to hold?

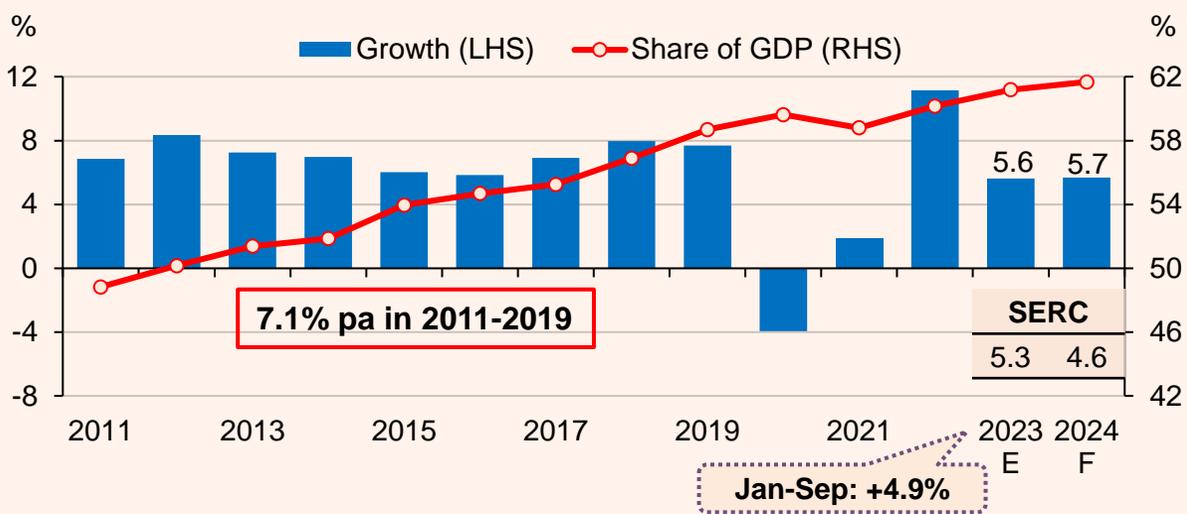
- Private sector expenditure and improving global demand.
- Implementing various business policies and blueprints are expected to provide a conducive business and investment environment.
- Private consumption supported by steady labour market conditions amid subsidy rationalisation as well as cost of living pressures.

Source: Department of Statistics Malaysia (DOSM); Ministry of Finance (MOF)

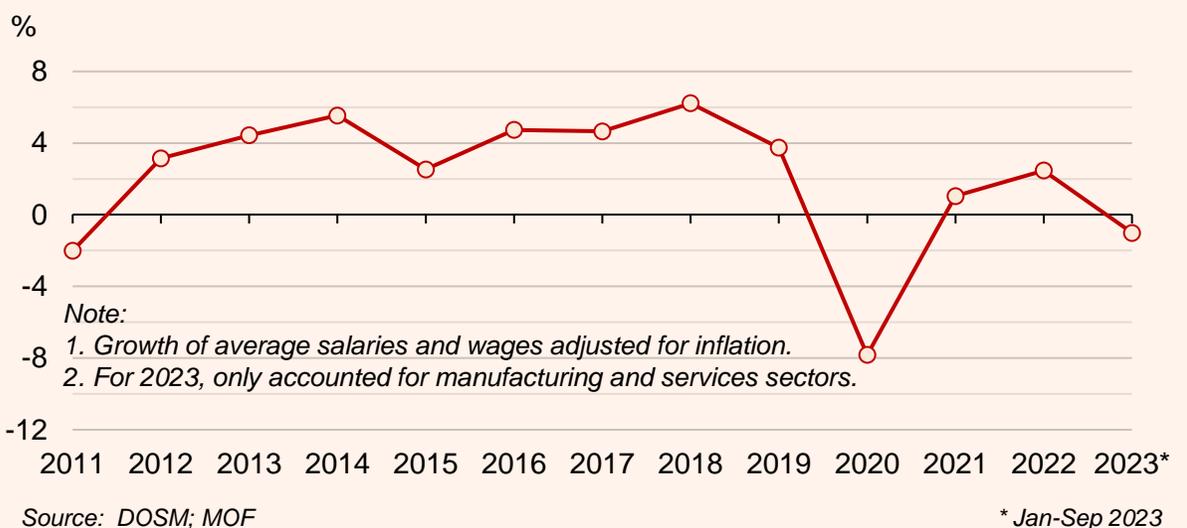
Note: 2023-2025F was forecasted in MTR of 12MP

Consumers more cautious with discretionary spending

Private consumption (61.2% of GDP in 2023E)



Real wage growth



Source: DOSM; MOF

* Jan-Sep 2023

Supporting factors

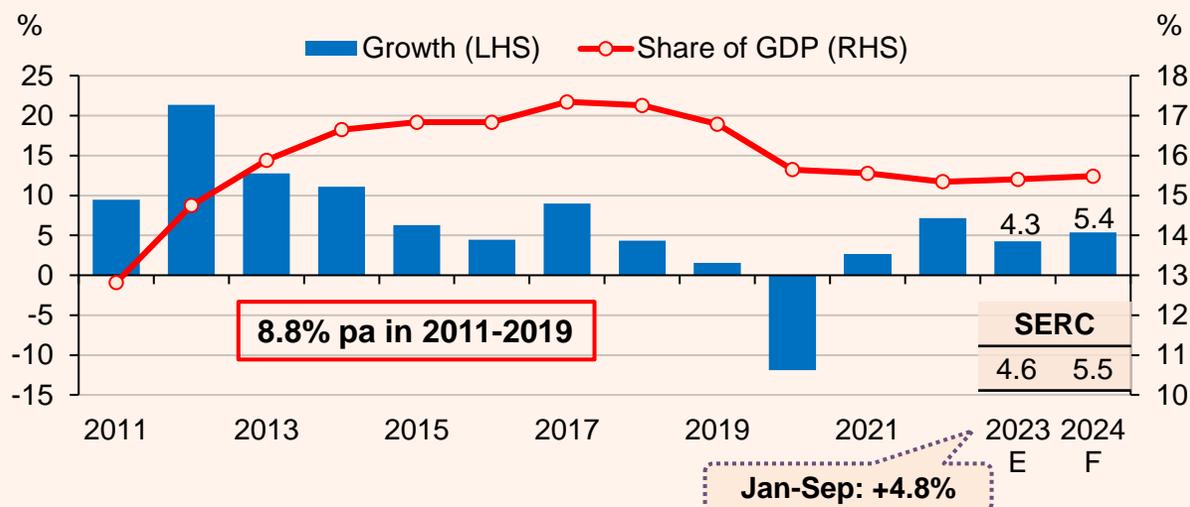
- Stable labour market conditions (Jobless rate: 3.4% at end-2024).
- Improved income growth.
- Sumbangan Tunai Rahmah (RM10.0 billion for almost 9 million recipients).
- Special cash incentives of RM2,000 for 1.7 million civil servants and RM1,000 for 971,000 pensioners.

Dampening factors

- Increasing cost of living and inflation risk.
- Service tax scope expanded (includes logistic, brokerage, underwriting and karaoke services) with rate increase to 8% from 6% (excluding food and beverages, telecommunication services, parking and logistic services).
- Targeted subsidy rationalisation in phases.
- High-Value Goods tax of 5% to 10%, starting 1 May 2024.

Navigating private investment with increasing costs pressure

Private investment (15.4% of GDP in 2023E)



Outstanding loans to the business sector*



Source: DOSM; MOF; Bank Negara Malaysia (BNM)

Supporting factors

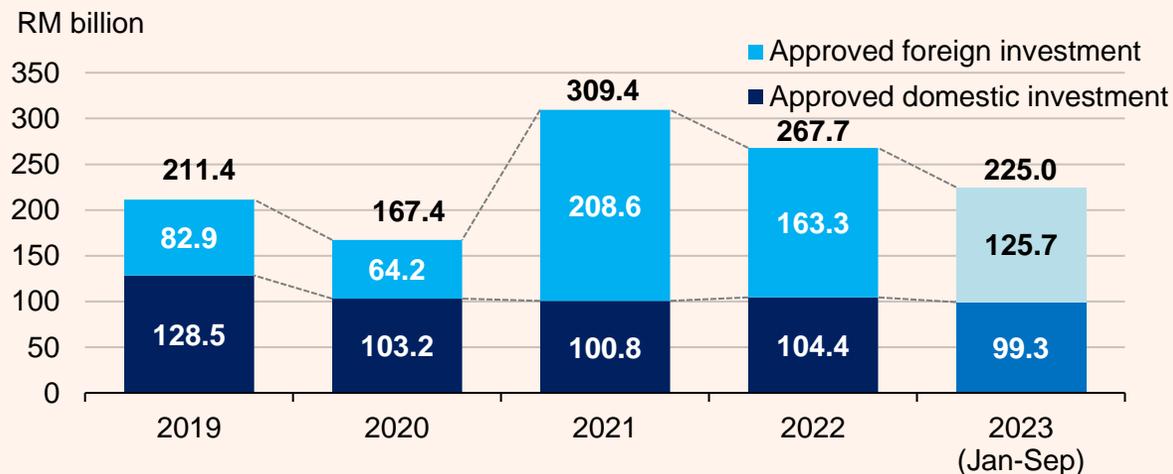
- Favourable business sentiments and improved external environment.
- Realisation of approved investments, mainly in the electronics and electrical products, transport equipment, and information and communications subsectors.
- New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR) and the Mid-Term Review of the 12th Malaysia Plan (2021-2025).

Dampening factors

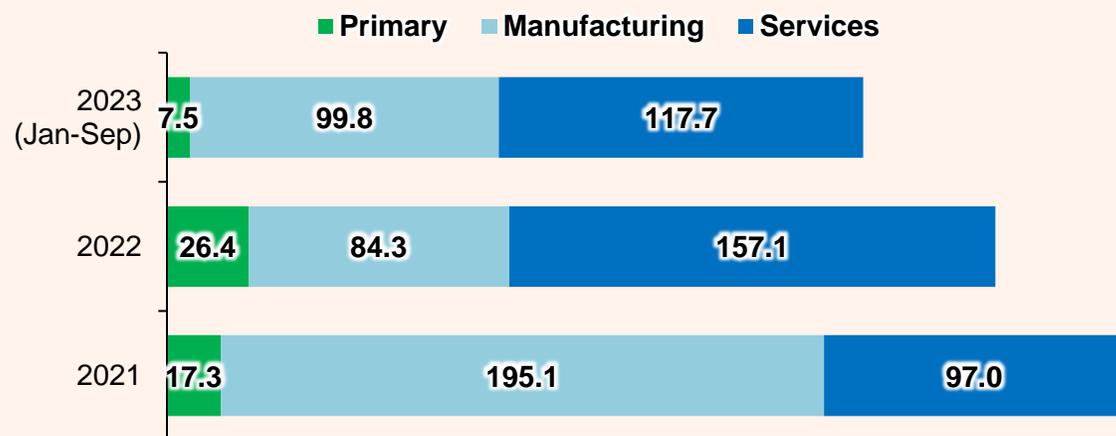
- Continued weak global economic growth.
- Concerns about business costs pressure; ESG compliance and climate change-induced disruptions.
- Targeted subsidy rationalisation in phases, e.g. diesel.
- Weak Ringgit caused higher imported value of machinery and equipment.

Catalysts to private investment

MIDA's approved DDI and FDI



MIDA's approved Investment by major sector



Source: Malaysian Investment Development Authority (MIDA)

Some notable approved investment projects



US\$8 billion for up to 10GW of renewable energy projects



RM2 billion in the next 7 years on state-of-the-art facility



Setting up a vast network of fast-charging and regular-charging stations; establish its state-of-the-art head office and service center; and experience centers



Amazon Web Services (AWS) **RM25.5 billion (USD6 billion)** by 2037 to open a Cloud Computing Infrastructure



US\$7 billion expansion for its chip assembly and testing factory.



To build the world's largest 200mm SiC (silicon carbide) Power Fab and invest additionally up to **€5 billion** over the next 5 years



Potential investment of up to **RM9.6 billion** to expand manufacturing operations



Partnering with xFusion partner to invest **RM1.7 billion** to open new facility

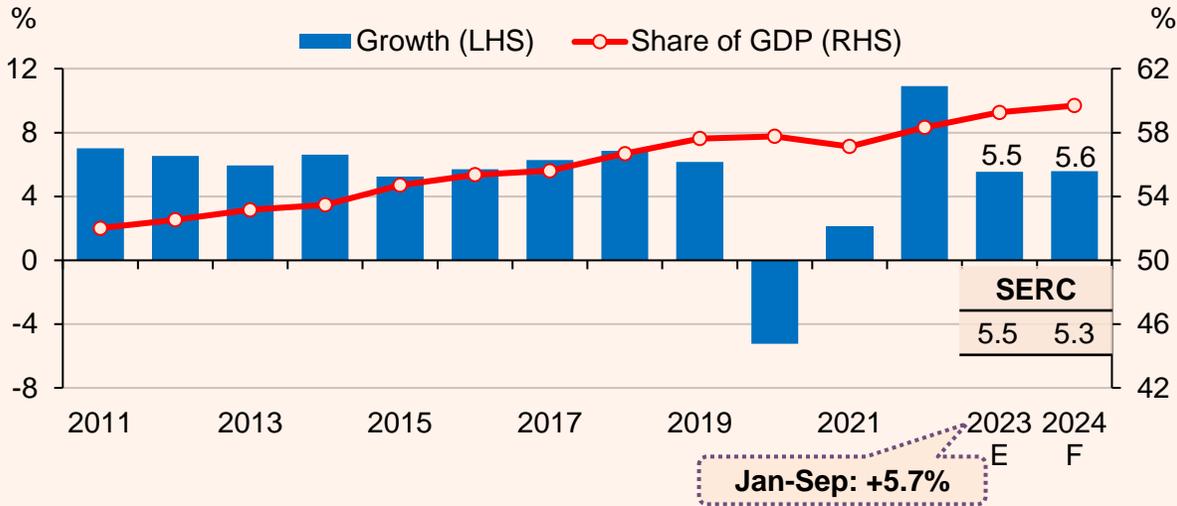


Invest **RM1.62 billion** to open semiconductor backend

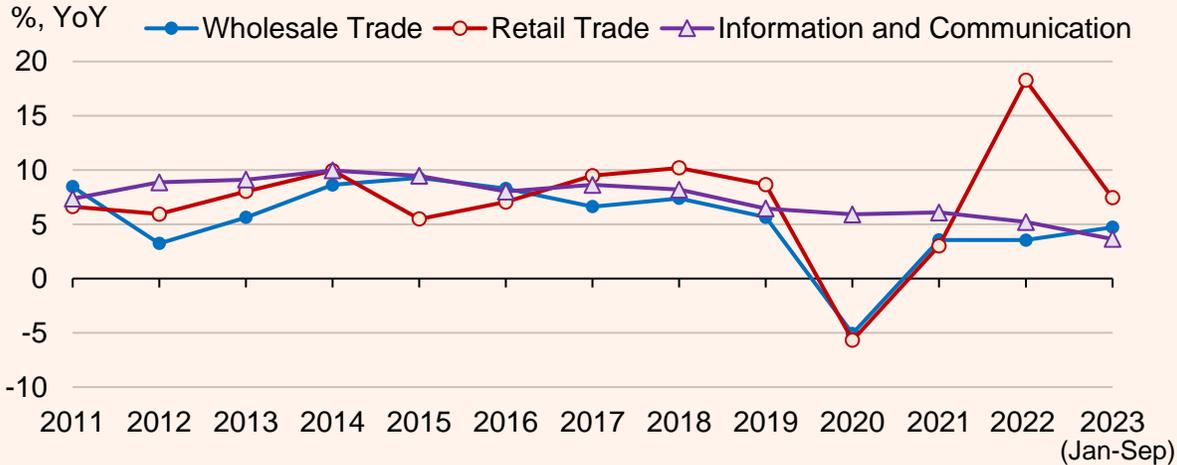
Elna PCB Deepens Root In Penang With RM1 Billion Expansion Plan

Services sector is leading the pack

Services sector has been the driving force (59.3% of GDP in 2023E)



Growth of major sub-services sectors



Source: DOSM; MOF; SERC

Supporting factors

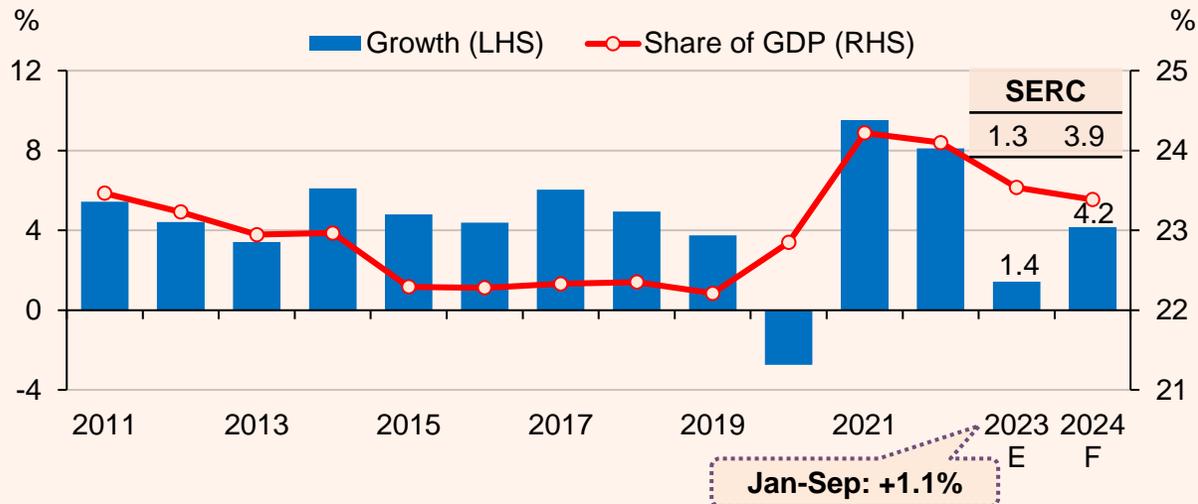
- Sustained domestic consumption supports retailing, restaurants, accommodation and communication segments.
- Higher trade-related activities help the wholesale trade, transport and storage subsectors.
- Stronger revival in tourism segment.
- Realisation of approved investments in information and communications subsectors.

Dampening factors

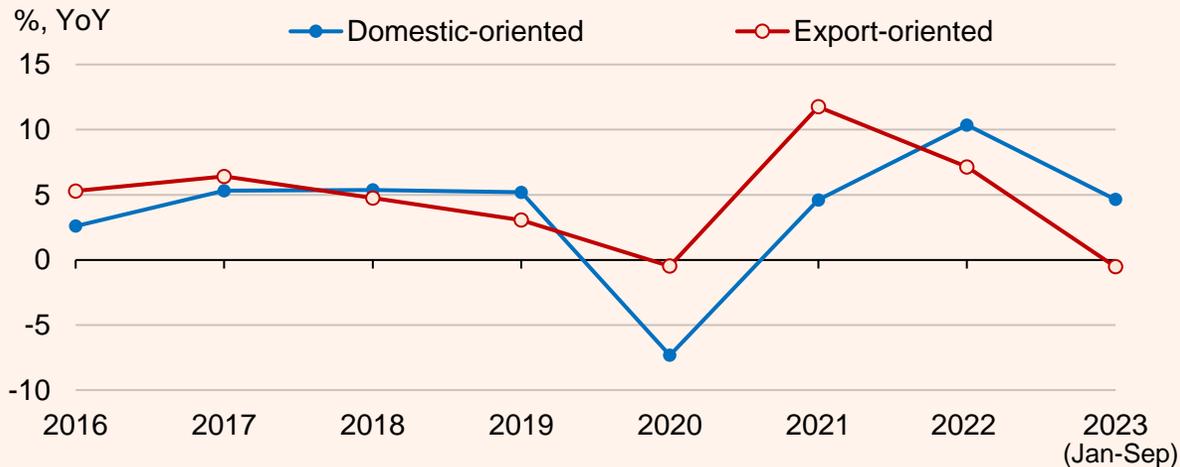
- Concerns about business costs pressure; ESG compliance and climate change-induced disruptions
- Targeted subsidy rationalisation in phases.
- High-Value Goods Tax.
- Higher service tax rate and tax scope expansion.

Manufacturing sector looks to bounce back

Recovery in E&E to revive manufacturing output (23.5% of GDP in 2023E)



Export-oriented vs. Domestic-market oriented industries



Source: DOSM; MOF; SERC

Supporting factors

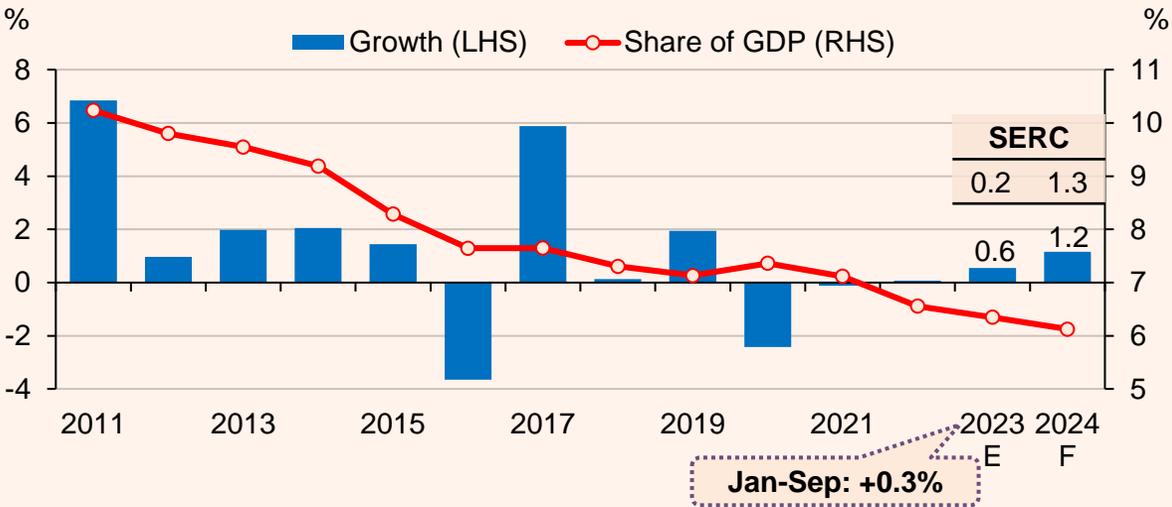
- Recovering external demand helps export-oriented industries, particularly E&E products.
- Favourable domestic-market oriented industries, backed by higher output in transport equipment and construction related segments, in line with continued growth in consumption and investment.
- Realisation of approved investments in the electronics and electrical products, transport equipment, information and communications subsectors.
- Implementation of initiatives under NIMP 2030, NETR and Chemical Industry Roadmap 2030.

Dampening factors

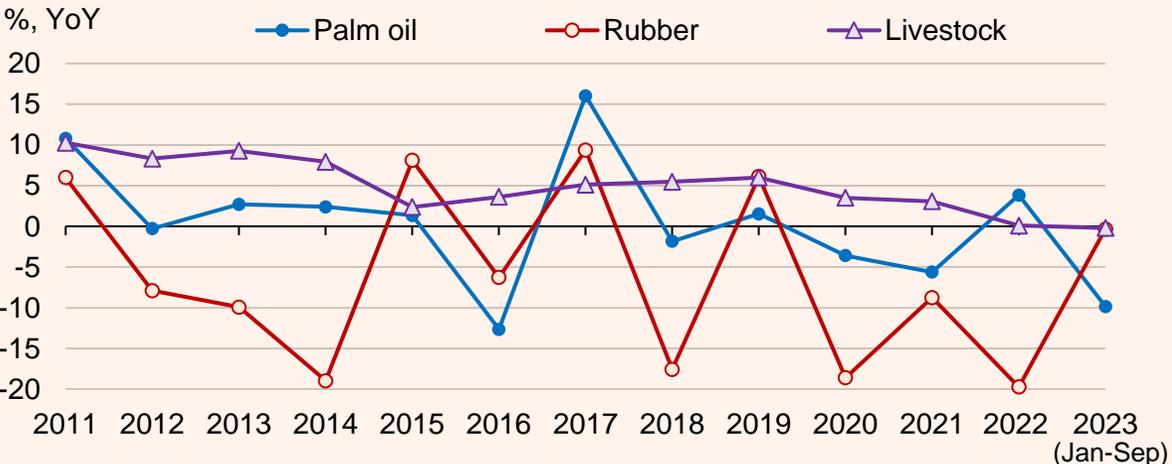
- Concerns about business costs pressure; ESG compliance and climate change-induced disruptions.
- Targeted subsidy rationalisation in phases.
- Weak Ringgit caused higher imported value of raw materials, machinery and equipment.

Agriculture sector sees moderate growth

Agriculture output will increase in 2024 (6.3% of GDP in 2023E)



Growth of sub-sectors in the agriculture sector



Source: DOSM; MOF; SERC

Supporting factors

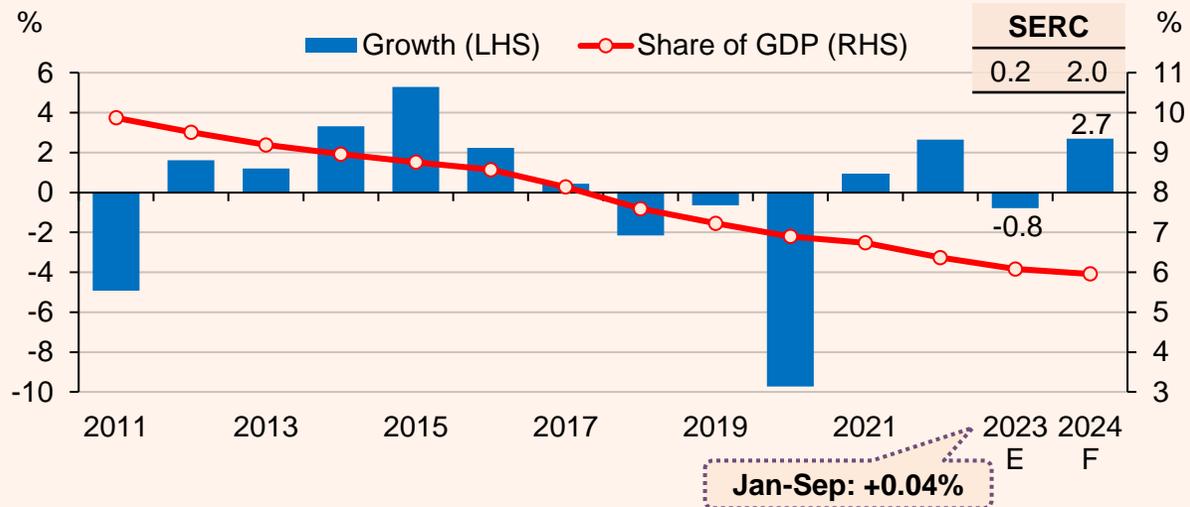
- Higher production of crude palm oil (CPO), other agriculture and livestock.
- CPO production supported by minimal impact expected from the El Nino, better labour supply, increased matured areas and higher oil extraction rate.
- CPO price: RM4,000-RM4,500/tonne (RM3,500-RM4,000/tonne in 2023) – partly attributed to anticipation of low output from other vegetable oils and higher demand for CPO from major importing countries.
- Concerted efforts to strengthen food security and modernise the agriculture would drive livestock and other agriculture subsectors.

Dampening factors

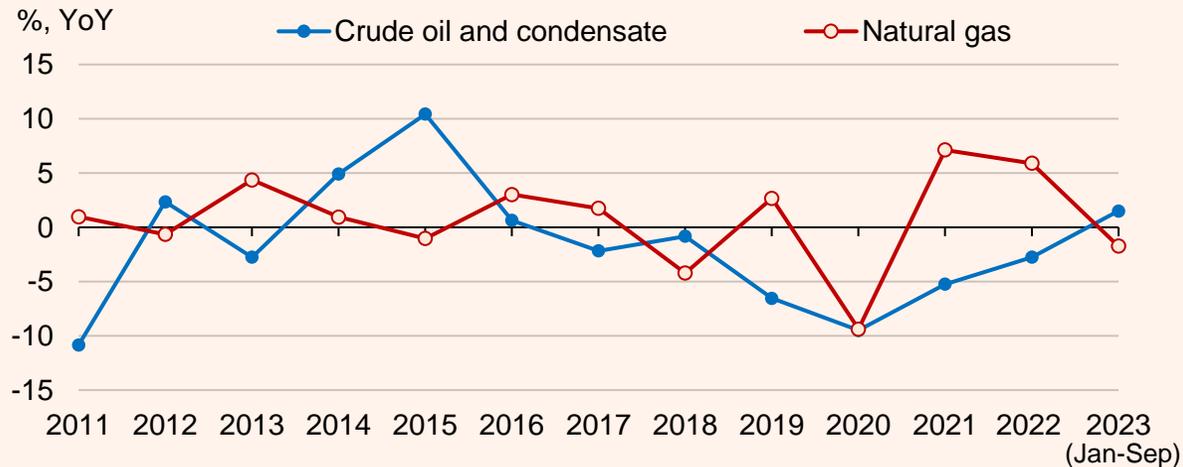
- Lingering effect on sustainability issue for palm oil.
- Price control measures could restrain supply (rice, egg).
- Risk of El Nino last longer.

Mining sector to turnaround

Recovery in crude oil and gas production (6.1% of GDP in 2023E)



Growth of sub-sectors



Source: DOSM; MOF; SERC

Supporting factors

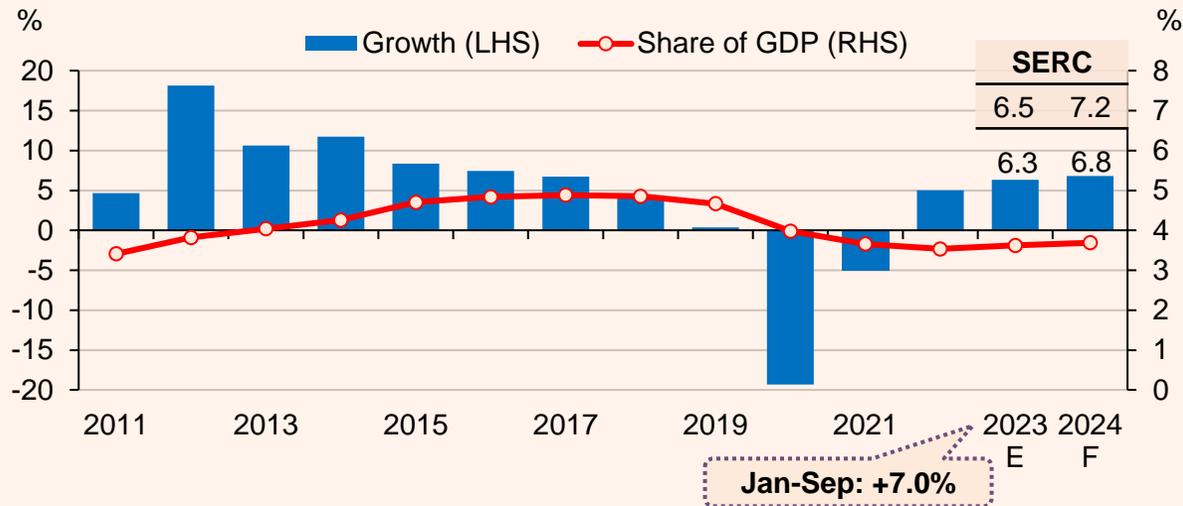
- Recovery in production of natural gas from new and existing gas fields, and crude oil and condensates.
- Anticipation of higher demand on positive global outlook.
- Brent crude oil price: US\$85/barrel (US\$80/barrel in 2023).
- Additional oil output cut among major OPEC+ members could support the crude oil prices.

Dampening factors

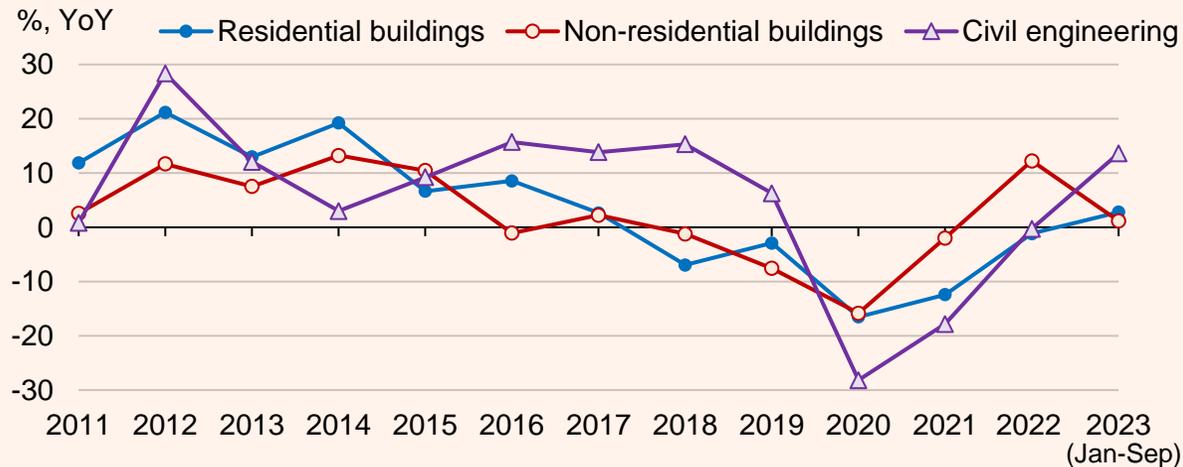
- Growing sustainability agenda limits crude oil development.
- Risk on much weaker than expected global demand.
- Malaysia targeted to cut 0.17 million barrel per day in 2024.

Construction sector expansion continues

Construction output will be sustained higher (3.6% of GDP in 2023E)



Growth of sub-sectors in the construction sector



Source: DOSM; MOF; SERC

Supporting factors

- Expansion across all sub-sectors.
- Strategic infrastructure and utilities projects, include ongoing projects, e.g. Central Spine Road (CSR), Pan Borneo Sabah Highway and acceleration of projects under the Twelfth Malaysia Plan.
- Development of affordable public and private housing.

Dampening factors

- Risk from slow and inefficient implementation of projects.
- Overhang in the residential segment remained high, albeit has reduced from the peak.
- Occupancy rate in the commercial buildings below optimum level of 72.4% as at Q2 2023.

List of projects related to the construction and housing in Budget 2024

Selected infrastructure projects in the Budget 2024



Road Maintenance and Building

- Maintain federal roads and bridges **(RM2.8bn)**
- Build and upgrade village roads **(RM1.63bn)**
- Widening of the PLUS highway from Sedenak to Simpang Renggam **(RM931m)**



Public Housing (RM2.47bn)

- 36 Public Housing Program (PPR) **(RM546m)**
- 14 Program Mesra Rakyat **(RM358m)**
- Building new and repair of dilapidated houses **(RM460m)**
- Maintain low and medium cost stratified public and private housing **(RM100m)**



Public Transportation

- Early estimates for LRT Pulau Pinang to Seberang Perai **(RM10bn)**
- Reinstate 5 cancelled LRT stations in Klang Valley **(RM4.7bn)**
- Improve passenger facilities for Tioman Airport, including extending the runway by 1.3km **(RM47m)**

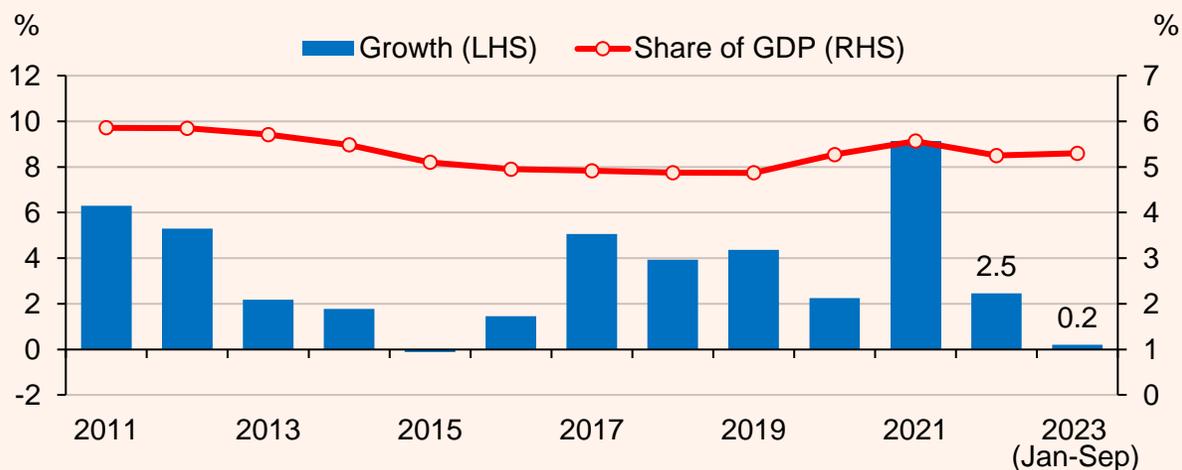


Others

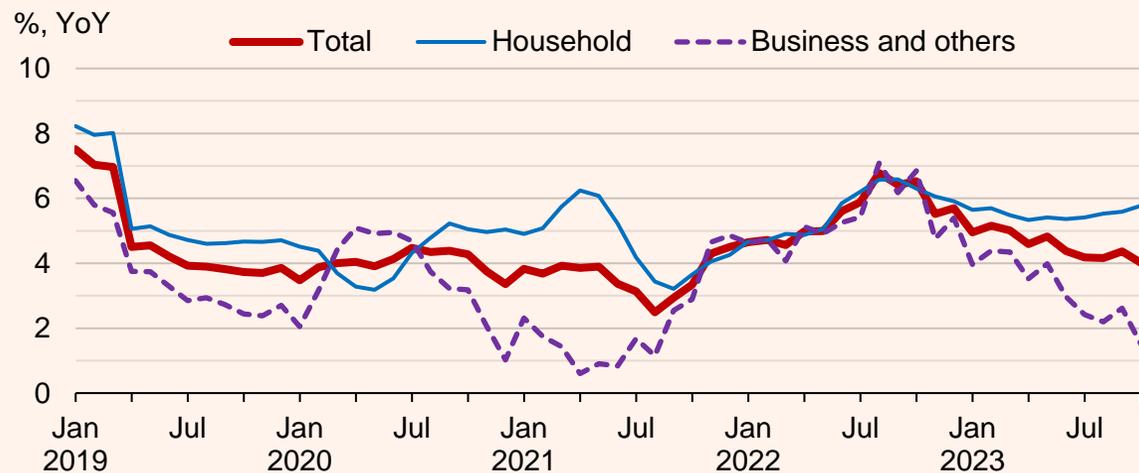
- 33 High Priority Flood Mitigation Projects **(RM11.8bn)**
- Building of 26 new schools **(RM2.6bn)**
- Build, maintain and refurbish the quarters of civil servants **(RM2.4bn)**
- Water to 5,150 households and electricity to 2,200 households **(RM939m)**
- USM teaching hospital **(RM938m)**

Malaysia's banking sector remains resilient amid

Services subsector: Finance (5.3% of GDP in 2022)



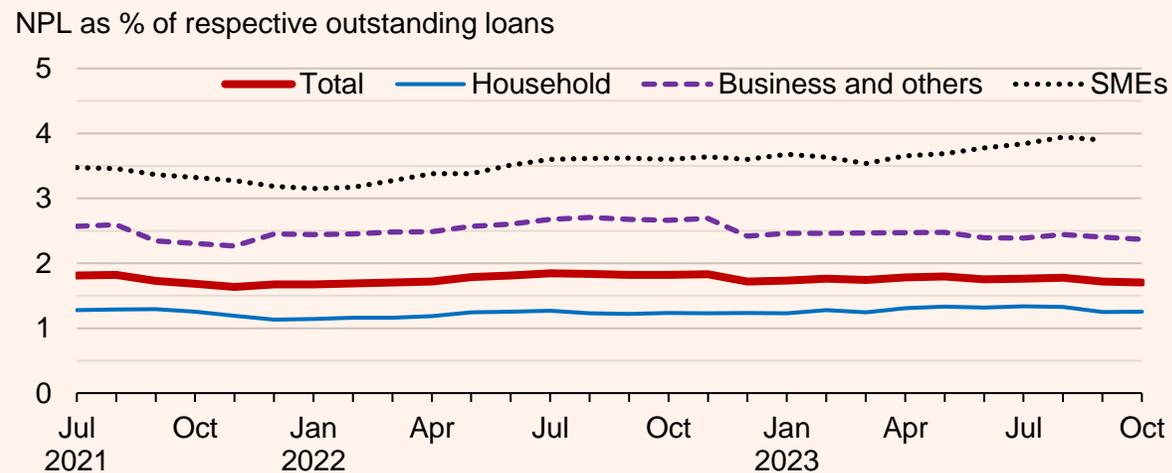
Loan growth grew unevenly



Source: DOSM; BNM

- Amid challenging cost operating environment in 2024, Malaysian banks are expected to grow at decent pace, underpinned by well capitalised base and strong liquidity buffers.
- The economy is anchored by domestic-oriented activities, including business investment. Both household and business segments have adequate financial buffers to sail through tough times, limiting slippages into non-performing. Stable labour market conditions support consumer spending.
- Key risks are weaker-than-expected global and domestic economy, property market weakness, renewed inflation and cost of living as well as cost pressures could exert financial strain for high leveraged borrowers and SMEs.

SMEs' non-performing loan ratio has been rising since early 2022



Note: Business and others, include SME

Budget 2024 – What’s in for the property sector?

Positive

- Relaxation of Malaysia My Second Home (MM2H) conditions
- Guarantees of up to RM10 billion for the Housing Credit Guarantee Scheme (HCGS) to benefit 40,000 borrowers
- Property transfer documents involving beneficiaries relinquishing their rights to eligible beneficiaries as per will, inheritance or the Distribution Act 1958 will only be subject to a stamp duty of RM10, instead of the previous ad-valorem rate
- RM2.47 billion for public housing projects, including RM1 billion to revive identified abandoned projects
- RM2.4 billion to build, maintain, and refurbish quarters for civil servants which are in shameful state due to their dilapidated conditions

Negative

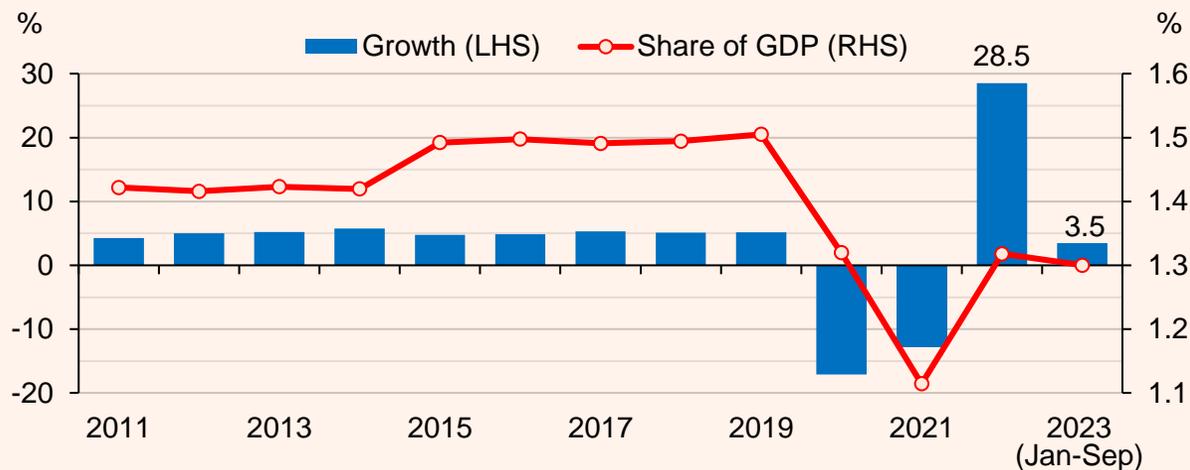
- Service tax rate increases to 8% from 6%
 - *Taxable service: Provision of all types of surveying services, including valuation, appraisal, estate agency or professional consultancy services*
 - *Increase the cost of transaction*

Mixed impact

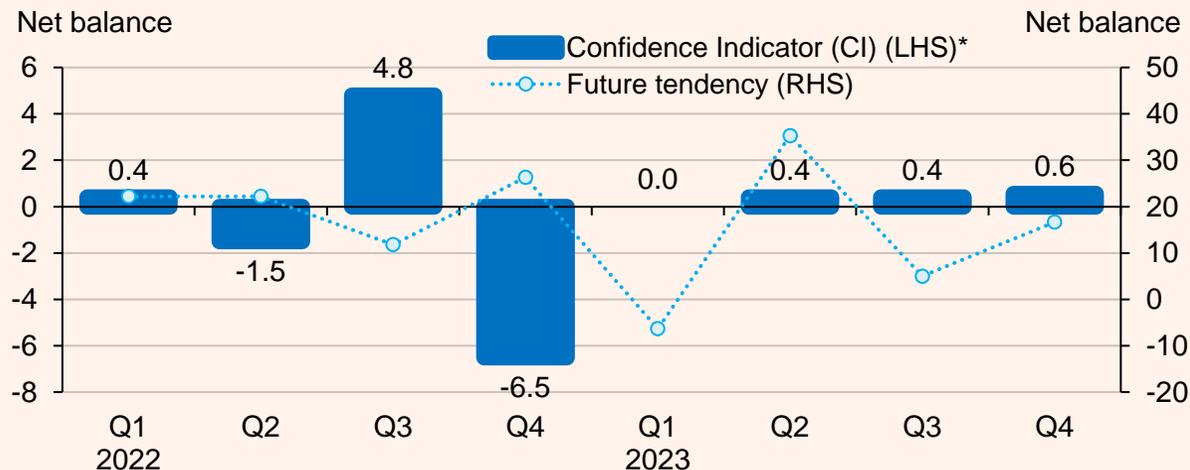
- A flat rate stamp duty of 4% on the transfer of land ownership documents by non-citizens and foreign-owned companies, except for individuals with permanent residency status in Malaysia
 - *May somewhat discourage MM2H*
- Residents’ approval threshold for en-bloc sales will be reduced from 100% to a level consistent with international practices, such as in Singapore, between 80-90%
 - *Concerns about rightful deprivation of a minority owner’s right. Any redevelopment, rejuvenation or renewal plan must receive the consent of every home owner*

Cautious outlook in Malaysia's real estate sector

Services subsector: Real estate (1.3% of GDP in 2022)



DOSM's Business Tendency Statistics: Real estate industry

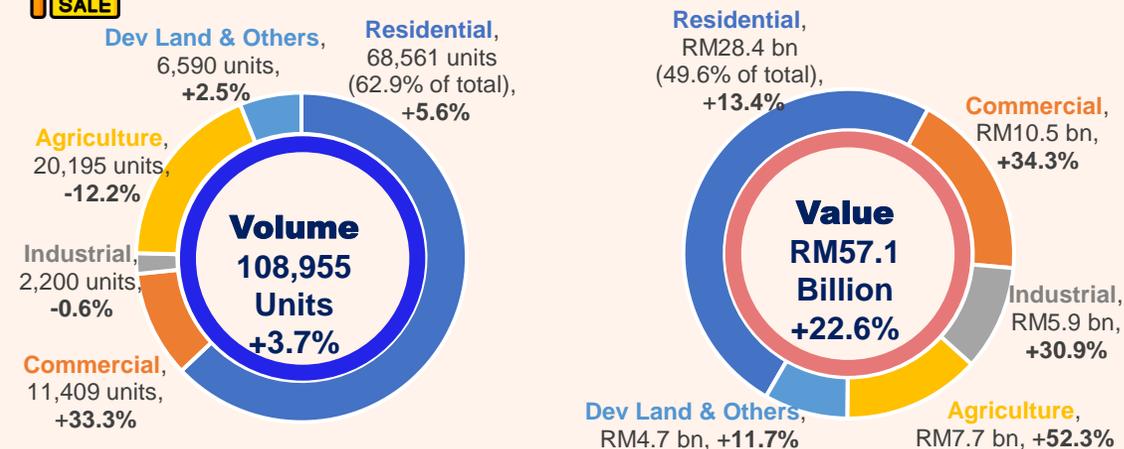


Source: DOSM; NAPIC

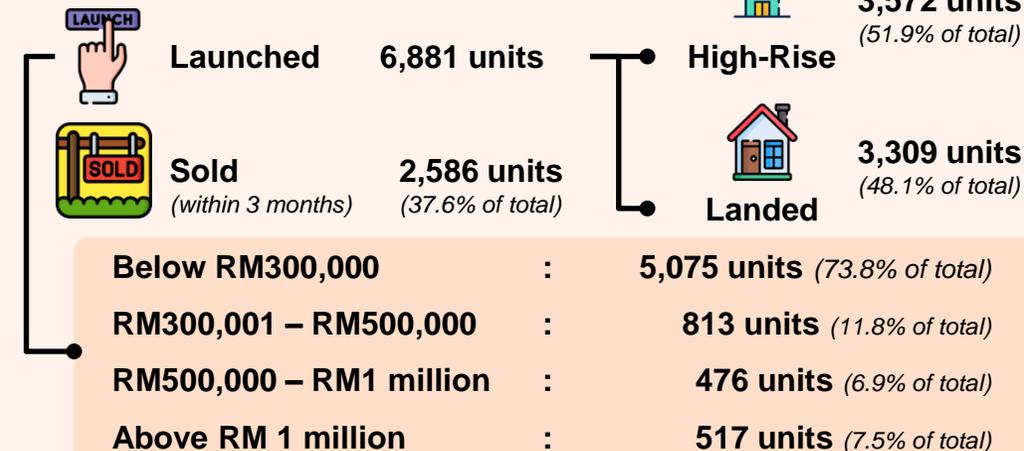
*Real Estate CI = (BS + CD + ED) / 3; where BS=Current business situation; CD=Present tendency (volume of demand); and ED=Future tendency (volume of demand)



Volume and value by sub-sector (Q3 2023; YoY)



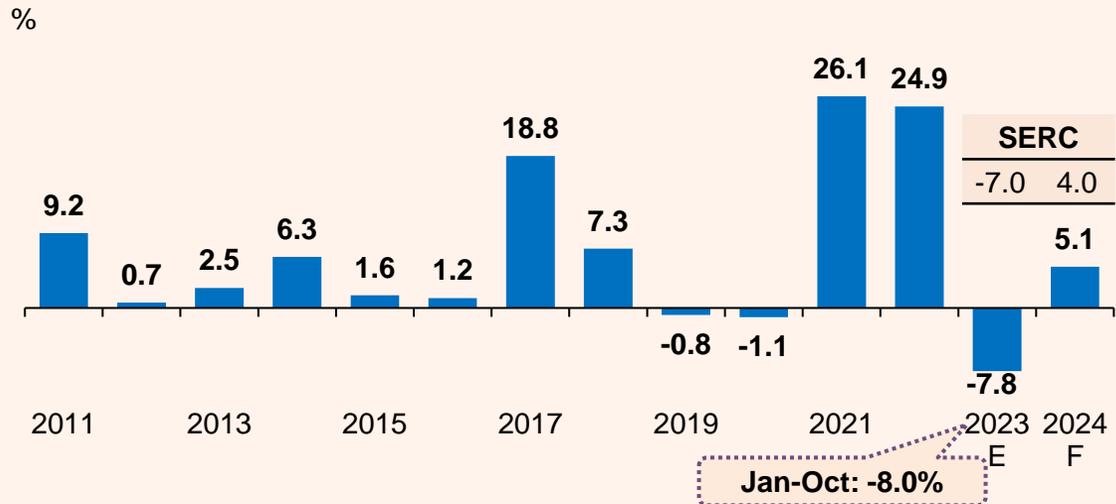
Units Newly Launched & Sold in Q3 2023



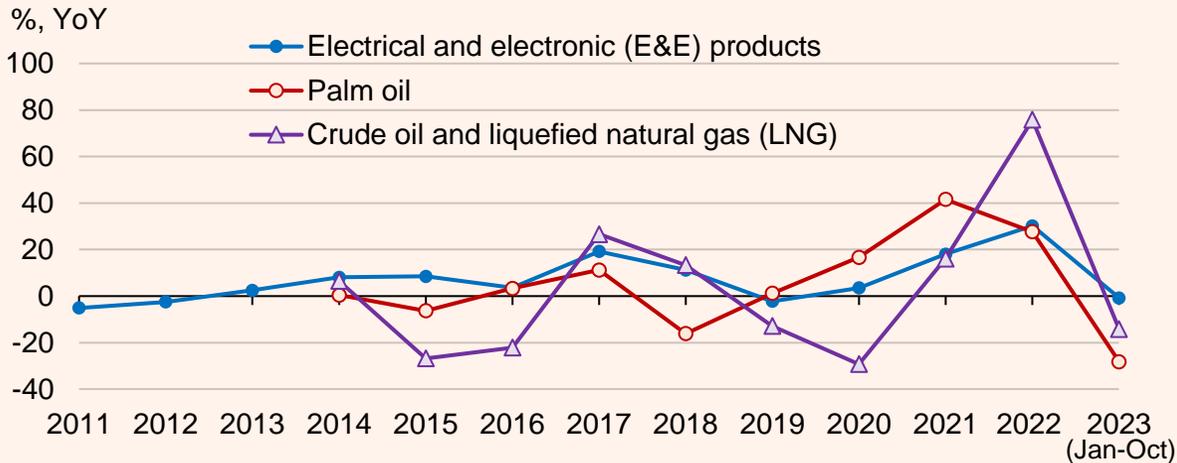
Note: The percentage not added-up to 100% due to missing data.

Exports contraction to bottom out; turnaround in 2024

Gross exports will recover gradually in 2024



Growth of selected export products



Source: DOSM; MOF; SERC

Supporting factors

- Anticipate better performance in global trade and improved prospects in the commodity sector.
- The trade expansion effects from RCEP and CPTPP.
- Steady demand for semiconductor and upcycle trend in E&E.
- Higher demand for petroleum products, chemicals and chemical products, manufactures of metal, palm oil and mining goods.

Dampening factors

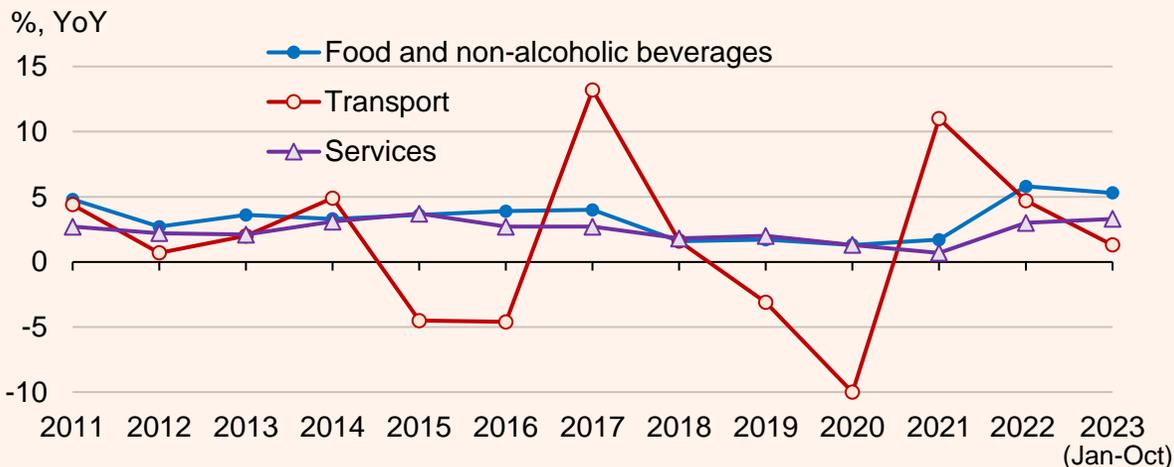
- Risk on global demand not making a strong comeback.
- Moderating global commodity prices.

Inflation may re-emerge on review of price controls and subsidies

Headline inflation will remain high 2024



Food inflation remains a risk



Source: DOSM; MOF; SERC

Inflation is cooling, but prices are high

- Both headline and core inflation have moderated, mainly due to easing cost pressures.
- Inflation is expected to rise higher to 2.8%-3.5% in 2024 (estimated 2.5% in 2023).
- The Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.
- Bank Negara Malaysia to keep overnight policy rate (OPR) steady at 3.00% in 2024.

Dampening factors

- Gradual shift towards targeted subsidy mechanism. Targeted subsidy for RON95 petrol is expected to roll out in 2H 2024.
- Risks come from fluctuation in exchange rates and supply-related factors, such as global commodity prices, geopolitical uncertainties and climatic conditions.

THANK YOU

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