



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes the Bank's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by Bank Negara Malaysia in pursuit of its mandates.

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Key Highlights for 3Q 2023

GDP grew by 3.3%

What are the factors supporting growth?



Continued expansion in household spending

Private Consumption: 4.6% (2Q 2023: 4.3%)



Further recovery in inbound tourism

Exports of Services: 21.2% (2Q 2023: 41.4%)



Higher construction activity

Civil Engineering Value Added: 14.6% (2Q 2023: 10.0%)

Lower headline inflation at 2.0%

What are the key factors affecting inflation?



Lower food inflation

Food and non-alcoholic beverages inflation: 4.1% (2Q 2023: 5.6%)



Lower fuel inflation

Fuel inflation: -2.9% (2Q 2023: -2.5%)

Continued improvement in labour market



Unemployment Rate

3.4%
(2Q 2023: 3.5%)



Real Wages

1.4%
(2Q 2023: 1.0%)

The ringgit depreciated against the US dollar



MYR/USD
-0.2%
(2Q 2023: -5.8%)



US Dollar Index
3.2%
(2Q 2023: 0.4%)

Box Article

Malaysia's Economic Resilience: A Post-pandemic Analysis



Malaysia's economic resilience has enabled a steadfast recovery from the COVID-19 crisis and cushioned the impact from external headwinds

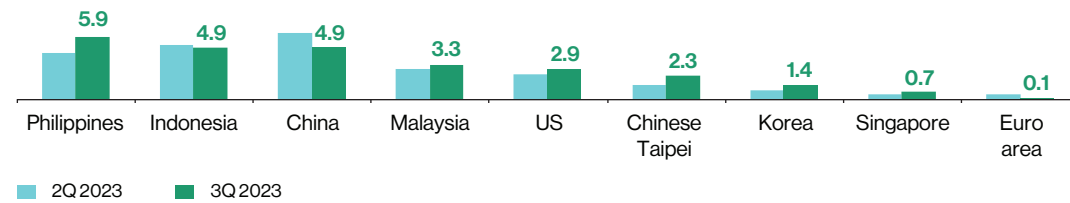
International Economic Environment

Global Economic Performance

Moderate global growth in 3Q 2023



GDP of Selected Economies
Annual change, %

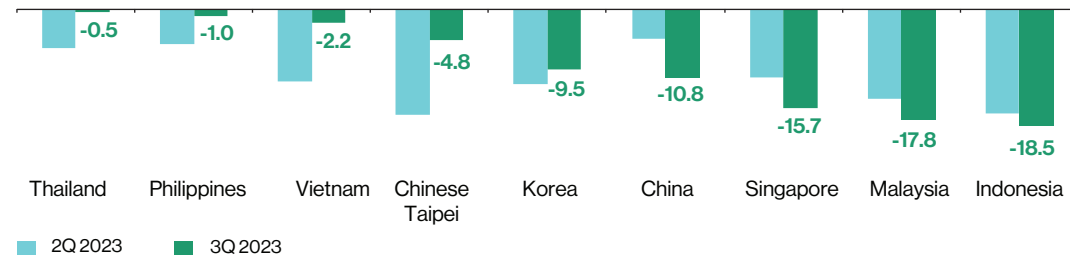


Source: National authorities

Trade remained in contraction, with tentative signs of improvement



Exports of Selected Economies in USD terms
Annual change, %



Source: National authorities

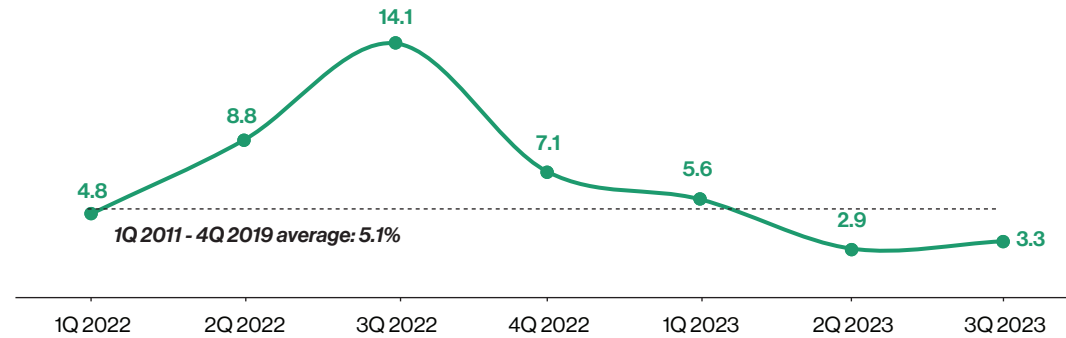
Highlights

- **Moderate global growth.** Despite resilient demand, growth was weighed by elevated inflation and higher interest rates.
- **Early signs of improvement in China's growth,** with higher consumption despite drag from property market
- **Tentative trade recovery.** Some signs of recovery emerged in the electrical and electronics (E&E) sector, but global trade remained soft partly due to the shift in spending from goods to services, and ongoing trade restrictions.
- **Headline ticked up albeit temporarily, while core inflation continued to moderate.** Headline inflation rose due partly to higher commodity prices.
- **Brent crude oil price trended higher** at USD87 per barrel in 3Q 2023 (2Q 2023: USD78 per barrel) following Saudi Arabia's unilateral production cuts.

Developments in the Malaysian Economy

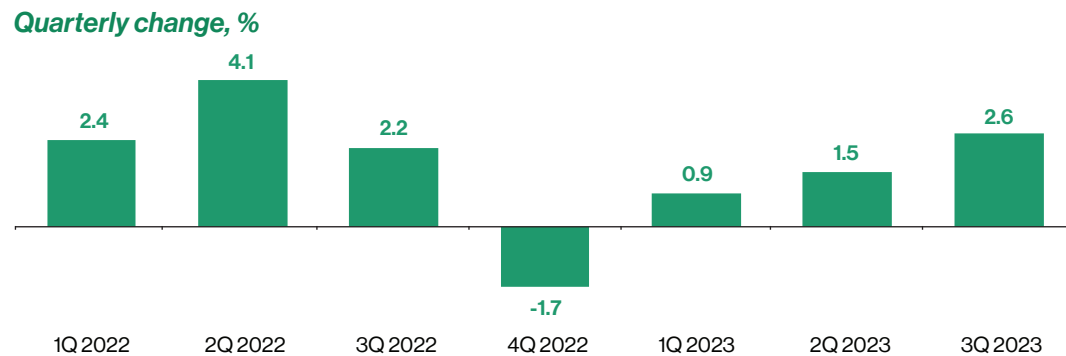
Gross Domestic Product

GDP grew by 3.3% in 3Q 2023
Annual change, %



Source: Department of Statistics, Malaysia

On a quarter-on-quarter seasonally-adjusted basis, the economy rose by 2.6%



Source: Department of Statistics, Malaysia

What are the factors supporting growth in 3Q 2023?



Expansion in domestic demand



Continued improvement in labour market conditions



Further recovery in tourism activities



Higher construction activity

What are the factors weighing on growth in 3Q 2023?



Weaker external demand affecting goods production and exports



Lower mining production

Developments in the Malaysian Economy

Malaysia's Economic Performance

Sustained domestic demand

Annual change, %

Private Consumption



Improvement in both necessities and discretionary spending by households

Private Investment



Continued capacity expansion by businesses

Public Consumption



Higher supplies and services spending by the Government

Public Investment



Continued expansion of Government fixed assets spending and capex by public corporations

Net Exports



Weaker external demand for goods exports

Growth supported by Services and Construction sectors

Annual change, %

Services



Improvement across both consumer- and business-related services

Manufacturing



Further weakness in E&E amid tech downcycle and lower production of refined petroleum products

Construction



Higher support from ongoing large infrastructure projects and small-scale projects

Mining



Continued contraction in natural gas production

Agriculture



Higher oil palm output as weather conditions improved amid easing labour shortages

Developments in the Malaysian Economy

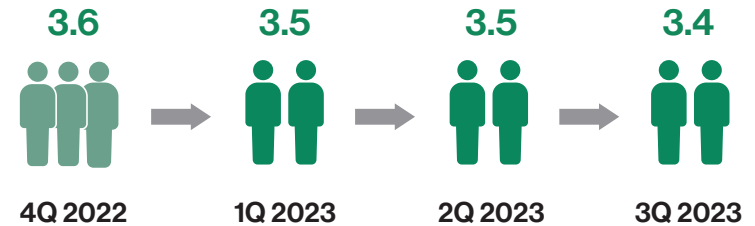
Labour Market Conditions

Labour market continued to improve

- The unemployment rate declined further to 3.4% in 3Q 2023 (2Q 2023: 3.5%).
- Employment improved to 16.25 million persons in 3Q 2023 (2Q 2023: 16.15 million persons) amid continued demand for labour.
- Labour supply remained forthcoming as the labour force participation rate increased to a historical high of 70.1% in 3Q 2023 (2Q 2023: 70.0%).

Lower unemployment rate

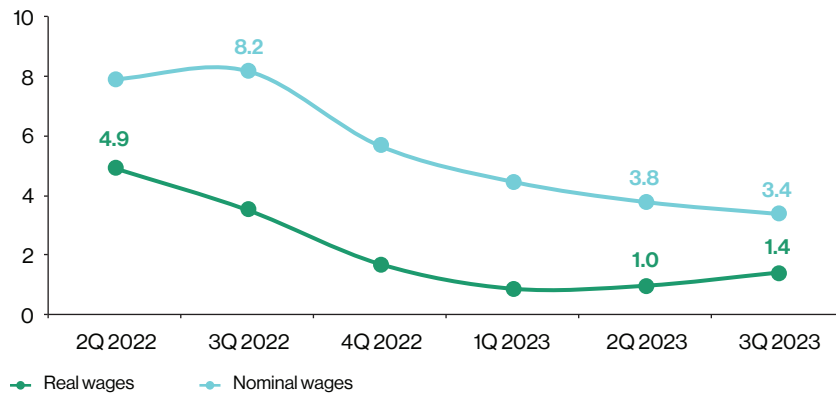
*Unemployment rate,
% of labour force*



Source: Department of Statistics, Malaysia

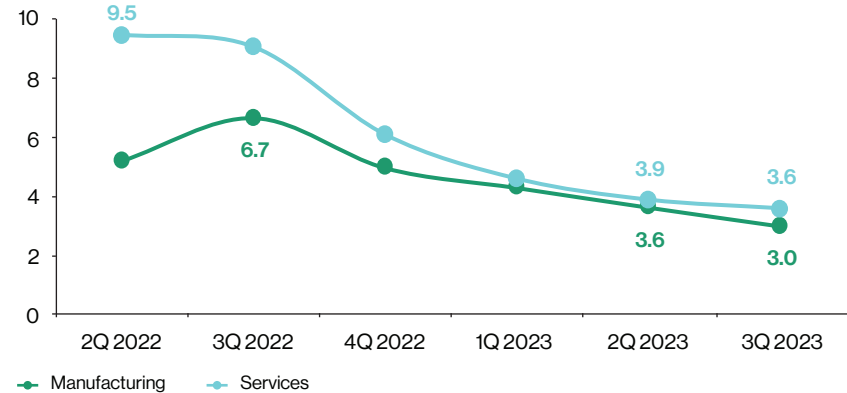
Continued growth in private sector wages

*Private sector wages,
Annual change, %*



Source: Department of Statistics, Malaysia, Bank Negara Malaysia Estimates

*Sectoral nominal wages,
Annual change, %*



Source: Department of Statistics, Malaysia, Bank Negara Malaysia Estimates

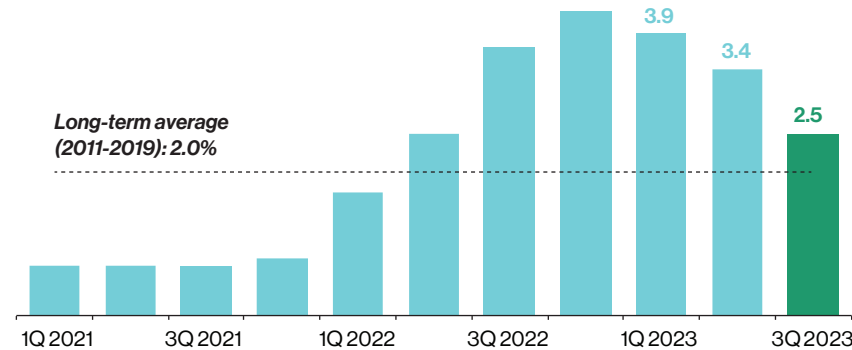
Developments in the Malaysian Economy

Disinflation trend continued amid easing cost environment

Core inflation continued to moderate to 2.5% during the quarter

Annual change, %

- Core inflation declined albeit remaining elevated relative to its long-term average level



Selected Core Services Items

Food away from home  **6.0%**
(2Q 2023: 7.7%)

Expenditure at restaurant and cafe  **4.6%**
(2Q 2023: 6.3%)

Repair and maintenance of personal transport  **6.7%**
(2Q 2023: 9.5%)

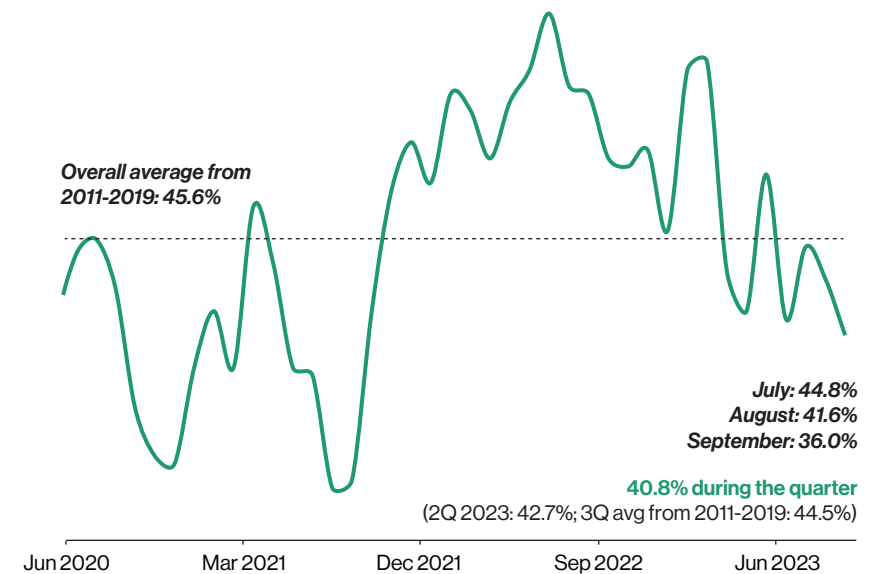
Note: Core inflation is computed by excluding price-volatile and price-administered items from headline inflation

Source: Department of Statistics, Malaysia, Bank Negara Malaysia Estimates

Inflation pervasiveness trending down

Share of CPI items recording month-on-month price increase, %

- Fewer items recording higher prices since August.



Source: Department of Statistics, Malaysia, Bank Negara Malaysia Estimates

Developments in the Malaysian Economy

External Sector Development

Slower export and import growth



Gross exports

-15.2% (2Q 2023: -11.1%)

Weaker external demand for goods and lower commodity prices

Gross imports

-16.3% (2Q 2023: -11.5%)

Weaker intermediate imports due to moderation in manufactured exports

Continued current account surplus and inflows in financial account



Current Account

RM9.1 bil; 2.0% of GDP
(2Q 2023: RM9.1 bil; 2.1% of GDP)

Driving factors:

- Higher goods surplus.
- Narrower services deficit reflecting higher travel receipts.

Which offset:

- Wider primary income deficit contributed mainly by higher investment income accrued to foreign investors in Malaysia.



Financial Account

Net inflows RM14.9 bil
(2Q 2023: Net outflows RM11.6 bil)

Driving factors:

- Net inflows in other investment, driven mainly by higher interbank borrowing by resident banks.

Which offset:

- Net outflows in portfolio investment on account of higher residents' investment in equity and debt securities abroad.
- Net outflows in direct investment due to higher direct investment abroad which offset FDI inflows.

Source: Department of Statistics, Malaysia, Bank Negara Malaysia

External debt edged higher

RM1.25 trillion or 69.0% of GDP

(2Q 2023: RM1.21 trillion or 67.1% of GDP)

- Higher interbank borrowings to cover maturity and withdrawal of deposits as well as funding requirements.
- Higher borrowings by corporates mainly in the form of intercompany loans.

External debt remained manageable

% of total external debt

CURRENCY

Ringgit-denominated: 32.7%

Unaffected by ringgit exchange rate fluctuations

FCY-denominated: 67.3%

of which 66.6% is subject to BNM prudential & regulatory requirements and 16.1% are due to intragroup loans

MATURITY

Medium-and long-term: 57.7%

Limited rollover risks

International Investment Position

RM94.9 billion (2Q 2023: RM160.9 billion)

International Reserves* USD108.5 billion

- **5.3 months**** of imports of goods and services.
- **1.0 time** of short-term external debt.

* As at 31 October 2023.

** Coverage may differ from the press statement on international reserves published on 7 November 2023, as it reflects the latest 3Q 2023 data on imports of goods and services and short-term external debt.

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

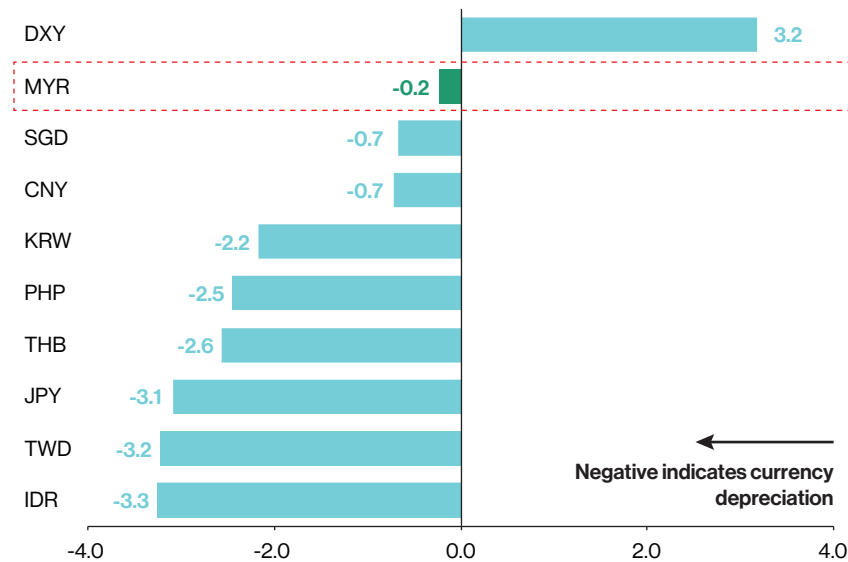
Monetary and Financial Developments

Financial Markets and Exchange Rate

Ringgit depreciated against the US dollar, but appreciated on an effective basis

Ringgit's depreciation was in line with major trade partners amid extended US dollar strength

Performance of the US Dollar Index and Regional Currencies Against the US Dollar, %QoQ



Ringgit appreciated against major trading partners

NEER
+1.4%
(2Q 2023: -3.2%)

Note: NEER refers to the nominal effective exchange rate
Source: Bank Negara Malaysia and Bloomberg

Domestic financial market developments were driven mainly by the global monetary policy path



Bond yields increased

in line with regional peers on expectations of tighter US monetary policy

MGS 10Y Yield

+12 bps
(2Q 2023: -6 bps)



Equity markets rose

as the launch of national master plans lifted earnings prospects

KLCI
+3.4% QoQ
(2Q 2023: -3.2%)

Key factors



Projections for US monetary policy to remain tight going into 2024 amid higher economic growth estimates by the US Federal Reserve, which led to higher global bond yields



Slower-than-expected economic growth in China led to continued monetary easing from the People's Bank of China and dampened investor sentiments towards the region

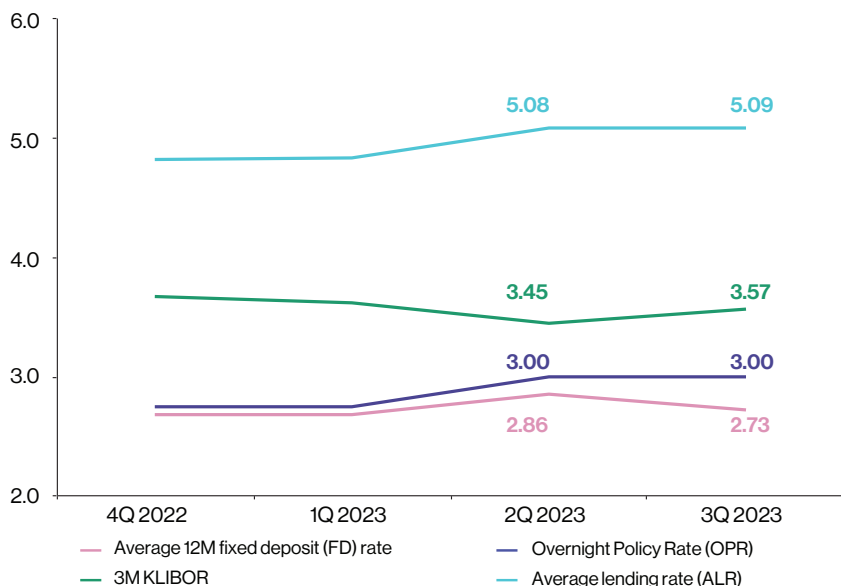
Source: Bank Negara Malaysia, ETP and Bursa Malaysia

Monetary and Financial Developments

Interest Rates and Liquidity

Interbank rates increased while fixed deposit rates declined during the quarter

Interest rates (at end-period), %

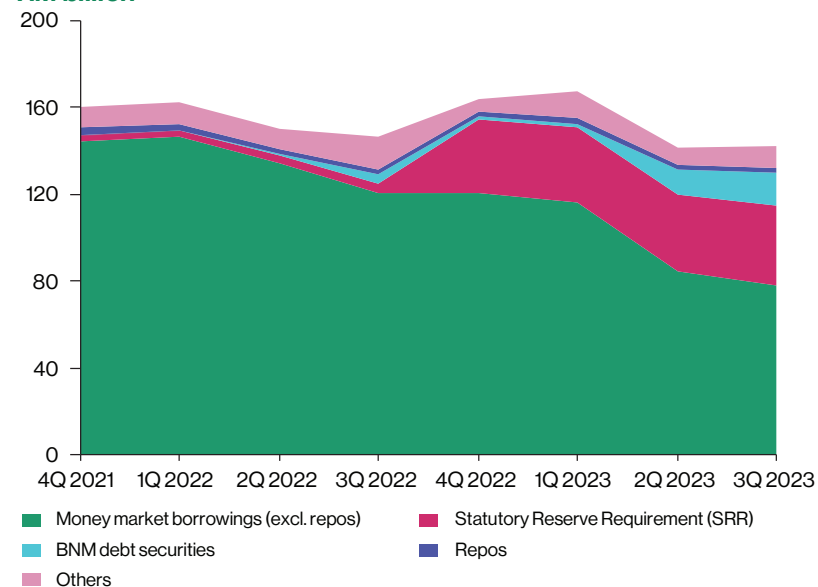


- **Interbank rates, as reflected by the 3M KLIBOR, increased** as banks traded more actively to fund their balance sheets and took pre-emptive measures to improve liquidity positions in anticipation of potential year-end deposit competition. The increase in interbank trading turnover reflected a more effective liquidity intermediation and price discovery in the market.
- **Fixed deposit (FD) rates declined** by between 1 and 14 basis points across tenures of 1 to 12 months, reflecting banks' funding strategy to manage the cost of funds.
- **Average lending rate (ALR) on outstanding loans remained broadly stable** during the quarter.

Source: Bank Negara Malaysia and Bloomberg

Sufficient banking system liquidity to support financial intermediation

Outstanding ringgit liquidity placed with BNM (at end-period), RM billion



- **Banking system liquidity remained sufficient** at both the institutional and system-wide levels.
- During the quarter, the Bank issued term Bank Negara Interbank Bills (BNIB)¹ to promote more efficient management of overnight liquidity balances by banks and to encourage greater trading and better price discovery in the interbank market.

¹ BNIB is a monetary instrument issued by BNM to manage liquidity in the interbank money market. More information on BNIB can be found on BNM's Fully Automated System for Issuing / Tendering (FAST) website.

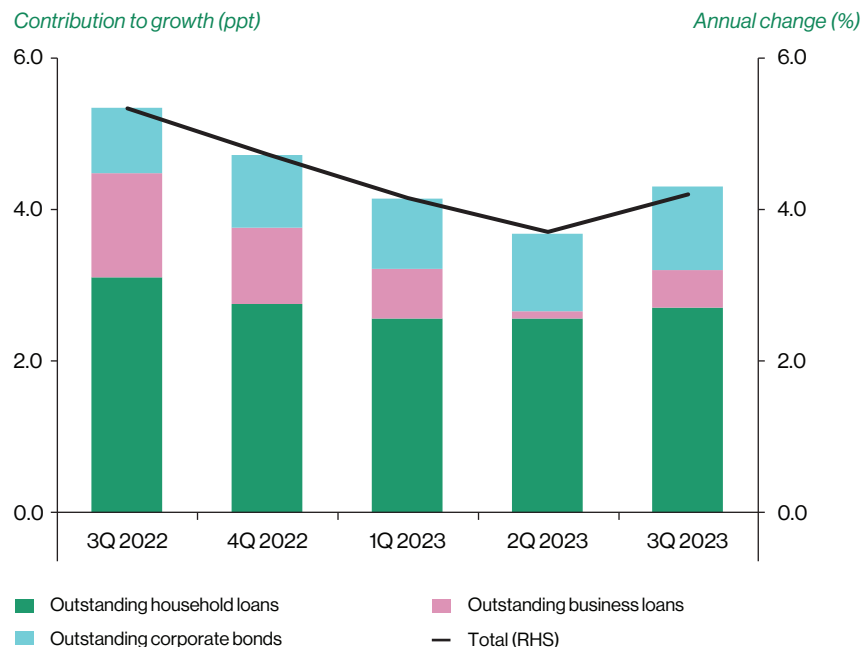
Source: Bank Negara Malaysia

Monetary and Financial Developments

Credit Conditions

Credit growth improved following higher growth in business loans

Credit to the Private Non-Financial Sector¹



¹ Consists of outstanding corporate bonds and outstanding loans to businesses and households.

Source: Bank Negara Malaysia

Key developments

Credit to the Private Non-Financial Sector 4.2%² (2Q 2023: 3.7%)

- Outstanding loans³ grew by 4.0% (2Q 2023: 3.4%), supported by higher growth in business loans.
- Outstanding corporate bond growth remained sustained at 5.0% (2Q 2023: 4.9%).

Business Loans 1.6% (2Q 2023: 0.5%)

- The higher growth was driven mainly by working capital loans to non-SMEs.
- Investment-related loan⁴ growth was sustained, mainly supported by SMEs.
- Of note, the growth in outstanding SME loans also remained forthcoming (6.7%; 2Q 2023: 6.4%).

Household Loans 5.4% (2Q 2023: 5.1%)

- Growth in outstanding loans continued to be sustained across key purposes.
- This reflected some improvement in loan demand during the quarter, as observed in the higher growth in loan applications (4.1%; 2Q 2023: 2.5%).

² All numbers quoted are in terms of annual change.

³ Refers to loans from the banking system and development financial institutions (DFIs).

⁴ Comprises loans for the purchase of non-residential properties, residential properties for business use, fixed assets and construction purposes.

Source: Bank Negara Malaysia

Box Article

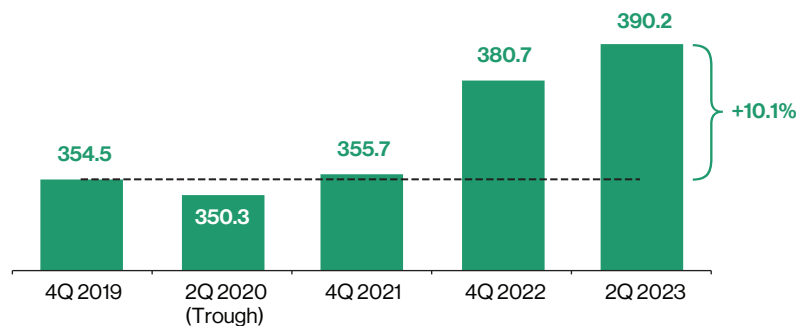
Malaysia's Economic Resilience: A Post-pandemic Analysis

Highlights

- Recovery led by manufacturing and services sectors.
- Malaysia's diversified exports and tourism rebound have contributed to the country's trade resilience.
- Improving labour market provided job and income opportunities, especially for the vulnerable segments.
- Robust economic fundamentals have enabled the country to weather the slowdown in external demand.

As of 2Q 2023, on a seasonally adjusted basis, Malaysia's GDP had exceeded pre-pandemic levels by more than 10%

Chart 1: Malaysia's Gross Domestic Product
Seasonally adjusted levels, RM billion



Source: Department of Statistics, Malaysia

INTRODUCTION

The COVID-19 pandemic was the most severe shock faced by the Malaysian economy since the Asian Financial Crisis. Amid a highly challenging global and domestic environment, the country suffered broad-based weaknesses in exports, production and domestic demand in 2020. These factors led to significant income losses and reduced spending by both households and businesses.

Since then, the Malaysian economy has made great strides in rebounding from the COVID-19 pandemic (Chart 1). This article aims to assess Malaysia's economic resilience post the pandemic and to evaluate the progress of key sectors in their recovery. Additionally, it seeks to shed light on the resilience of Malaysia's exports, including the rebound in the tourism sector. It analyses improvements in the labour market and its role in sustaining income and spending. The article then outlines the underlying factors that strengthen Malaysia's economic resilience in weathering ongoing external uncertainties and headwinds.

Box Article

Malaysia’s Economic Resilience: A Post-pandemic Analysis

Recovery led by manufacturing and services sectors

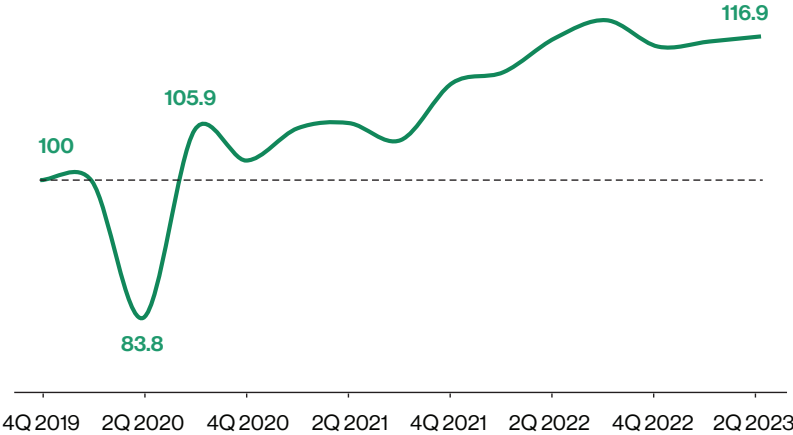
The COVID-19 pandemic restricted economic activities and impacted sectoral production adversely through both supply and demand shocks. As these shocks waned, the economy gradually recovered, driven mainly by the manufacturing sector and several major services sub-sectors.

The manufacturing sector led the economic recovery and rebounded as early as the third quarter of 2020 (Chart 2). Global demand for semiconductor equipment in telecommunication, medical devices, and cloud computing surged during the pandemic. This was a boon to Malaysia’s E&E industry as the country is well-integrated in the global value chain of these segments and has a strong domestic ecosystem to cater to the rising demand. Furthermore, the primary cluster benefitted from pandemic-induced demand for health-related products (e.g., rubber gloves and pharmaceuticals), while the consumer-related cluster gained from the improvement in domestic household spending, such as food & beverages and passenger cars, particularly following the reopening of the economy.

As the global economy slowed down in 2023, manufacturing activities moderated in tandem, particularly in export-oriented industries. Nevertheless, the sector continued to be a key driver of growth, trending above pre-pandemic levels.

The manufacturing sector led Malaysia’s recovery and remained a key engine of growth in the post-pandemic period

Chart 2: Malaysia’s Manufacturing Value Added
Seasonally adjusted GDP levels (4Q 2019=100)



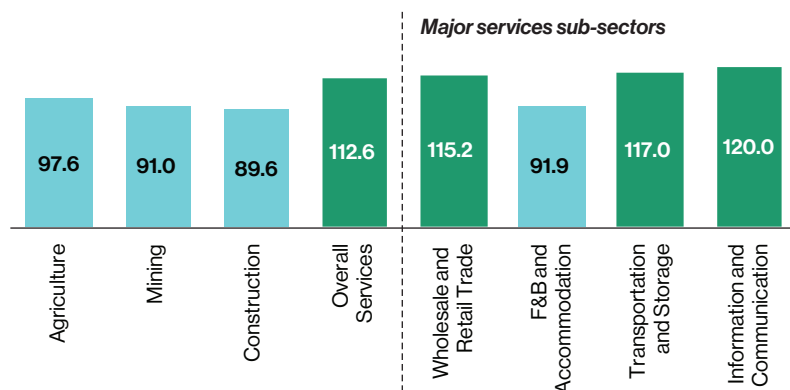
Source: Department of Statistics Malaysia, BNM estimates

Box Article

Malaysia's Economic Resilience: A Post-pandemic Analysis

The services sector rebounded, while other sectors faced uneven recovery and idiosyncratic shocks post the pandemic

Chart 3: Sectors/Activities with Uneven Recovery (2Q 2023)
Seasonally adjusted GDP levels (4Q 2019=100)



Source: Department of Statistics Malaysia, BNM estimates

In the services sector, the recovery gathered pace following the full upliftment of domestic containment measures and reopening of international borders in April 2022. This was also supported by policy measures such as accommodative monetary policy, cash transfers and retirement fund withdrawals. The increase in domestic spending led to the improvement in high-touch services activities (e.g., retail, dining out and recreational activities). Furthermore, the growth in delivery services and e-commerce led to higher online retail trade activity.¹ However, food and beverage

¹ Online retail trade activity grew by 19.8% in 2022 (2019: 13.8%). This was underpinned by more entrenched consumer online preferences, expansion of online market reach and marketing strategies.

and accommodation services remain below pre-pandemic levels (Chart 3), constrained by a more gradual rebound in tourism.

Several sectors experienced uneven recovery and faced idiosyncratic shocks, requiring a longer period to return to pre-pandemic levels. While agriculture sector provided support in the earlier stages of recovery, production in 2023 was impacted by adverse weather conditions. Mining sector activity was forthcoming but remained below pre-pandemic levels due to maintenance activities and production constraints related to maturing oil fields.

Meanwhile, the recovery in the construction sector was slower, especially in the residential and civil engineering subsectors. This owed to elevated building material costs and lingering labour shortage issues. Pre-existing structural issues also remain a drag such as property overhang and housing demand-supply mismatches.

Moving forward, most economic sectors will remain supportive of growth. The manufacturing sector is expected to expand further amid improving external demand and global tech upcycle. The services sector will benefit from continued growth in consumer spending and tourism recovery. Furthermore, the progress of infrastructure projects, including catalytic initiatives under the various national plans, will support the construction sector's ongoing recovery. Nevertheless, full recovery in the commodities sector could be delayed due to sector-specific constraints.²

² In 2024, the mining sectors' growth would be restrained by production issues related to maturing oil and gas fields while the agriculture sector would be weighed by extreme dry weather associated with El-Nino phenomenon.

Box Article

Malaysia’s Economic Resilience: A Post-pandemic Analysis

Malaysia’s diversified exports and tourism rebound have contributed to the country’s trade resilience

As a small and open economy, Malaysia was not spared from the sizeable shock to global trade by the pandemic. In 2Q 2020, the country’s exports recorded its sharpest decline since the Global Financial Crisis.

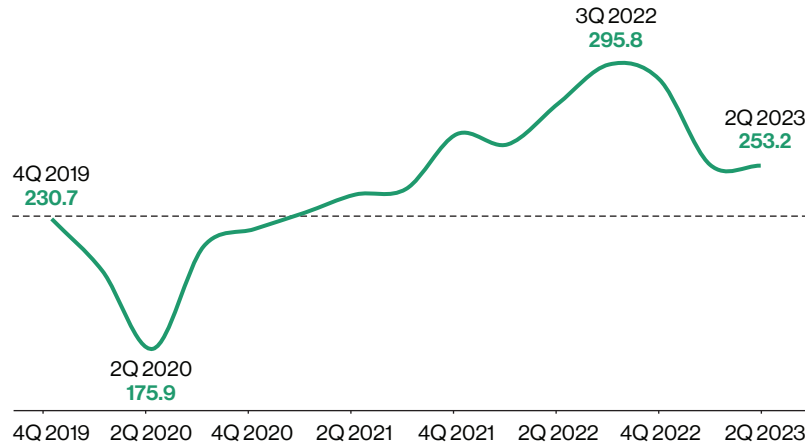
However, as the global economy gradually improved, Malaysia’s exports benefitted significantly, becoming one of the key engines of growth in 2021 and 2022. Some products recorded exceptional growth. For example, E&E products, which account for more than a third of total exports, grew strongly amid the accelerated adoption of technology worldwide. Non-E&E exports also improved, such as petroleum and palm oil products (19% of total exports in 2022).

Following the strong rebound last year, Malaysia’s exports declined in 2023 thus far, weighed by the softening in global trade. This reflects weak demand in key trading partners, a shift in spending from goods to services as well as the global tech cycle downturn. Nevertheless, Malaysia’s real exports in level terms continued to trend above its pre-pandemic level (Chart 4). The resilience in exports reflects the country’s ability to weather external headwinds through its highly diversified exports in terms of products and destinations.

Going forward, Malaysia’s exports are expected to improve gradually in 2024. This will be driven by improving global trade and higher demand for E&E products in line with the expected recovery in global tech cycle. Furthermore, the continued improvement in tourism will further lift overall exports.

Despite ongoing external headwinds, Malaysia’s real exports in 2023 remained resilient, trending above pre-pandemic levels

Chart 4: Malaysia’s Real Exports Performance
RM billion



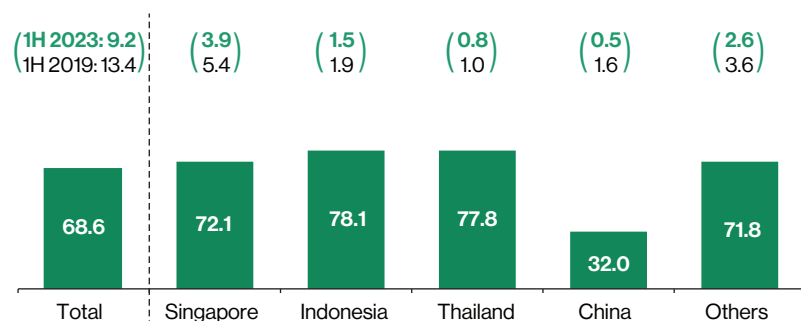
Source: Department of Statistics Malaysia, BNM estimates

Box Article

Malaysia's Economic Resilience: A Post-pandemic Analysis

Tourist arrivals in Malaysia have reached about 70% of the pre-pandemic level as at first half of 2023

Chart 5: Tourist Arrivals in Malaysia by Origin Country (1H 2023)
% of 1H 2019, Million persons

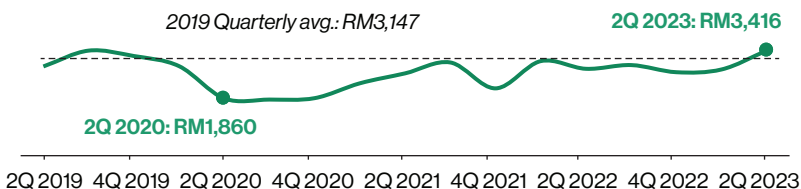


Note: Figures in the bar shows the percentage of recovery vs 1H 2019, while in parentheses refer to actual number of arrivals.

Source: Tourism Malaysia, BNM estimates

Tourist spending in Malaysia has exceeded its pre-pandemic average level by second quarter of 2023

Chart 6: Tourist per Capita Spending in Malaysia
RM



Note: Per capita spending is estimated by dividing Malaysia's travel receipts for the quarter with the number of tourist arrivals.

Source: Department of Statistics Malaysia, BNM estimates

Malaysia's tourism industry was one of the most affected industries by the pandemic. As international borders reopened and travel abroad resumed, Malaysia's tourism industries have steadily improved. In 2022, tourism contributed to 14% of GDP (2021: 12.8%; 2019: 15.9%) while travel receipts accounted for 2.1% of nominal exports (2021: 0.03%; 2019: 8.3%).

As at the first half of 2023, tourist arrivals reached about 70% of pre-pandemic level (Chart 5). This is driven mainly by regional tourists from Singapore, Indonesia and Thailand. Malaysia also benefitted from China's outbound travel, following the lifting of its COVID-19 restrictions.³ Furthermore, in 2Q 2023, per capita spending by foreign tourists had exceeded its pre-pandemic level (Chart 6). Of note, Chinese visitors are spending more on experiences compared to goods.⁴ The recovery in tourist arrivals and spending have supported jobs and income in the industry. However, the impact to overall economy was also partially offset by the rising number of Malaysians travelling abroad.⁵

In the upcoming quarters, tourist arrivals are expected to further improve. This will be supported by higher international travel demand as well as the expansion in flight capacity to cater to the higher demand.

³ The rebound in China's outbound tourism has been gradual, due in part to more cautious spending among Chinese travellers amid the country's slowing economic growth.
⁴ Based on Travel Industry Trend 2023 publication by Mastercard Economic Institute. Data as of Mar 2023 shows that Chinese tourists are spending more than 2019 level (105% of 2019 level) on experience, with less expenditure on things (70% of 2019 level).
⁵ In 1H 2023, Malaysia recorded net travel receipt of RM5.1 billion (2015-19 avg.: RM30.4 billion) as travel receipts from foreign tourists of RM28.6 billion (2015-19 avg.: RM76.8 billion) was partially offset by travel payments by Malaysians travelling abroad of RM23.5 billion (2015-19 avg.: RM46.4 billion).

Box Article

Malaysia's Economic Resilience: A Post-pandemic Analysis

The improving labour market provided job and income opportunities, especially for the vulnerable segments

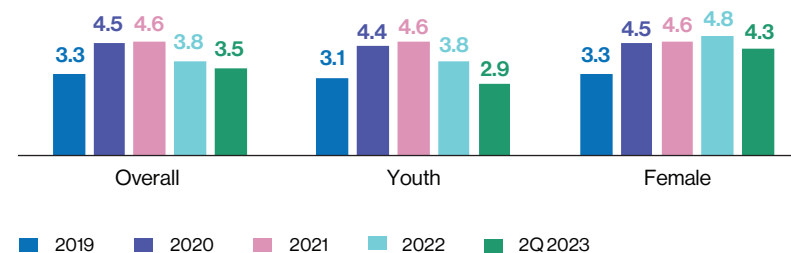
The onset of the pandemic significantly weighed on employment and income levels. Employees in the informal sector were the most affected, including women and youth who experienced a sharper increase in unemployment rate⁶ (Chart 7). Meanwhile, the negative impact to workers in formal employment was not as acute as firms were able to operate through flexible work arrangements and technology adoption. The majority of firms⁷ also opted to retain headcount as retrenchments could lead to higher sourcing and re-training costs when the economy recovers. Furthermore, firms and workers were also supported by policies such as the Employment Retention Programme and Wage Subsidy Programme.

Following the lifting of restrictions on economic activities in 2022, employment levels recorded a strong growth of 2.8% (2016-2019 average: 1.7%). This was partially driven by a surge in own-account workers⁸ (Chart 8) as the gig economy served as a socio-economic safety net for those who experienced loss of employment, contributing to the upturn in income and household balance sheet resilience. Based on national estimates,⁹ informal sector employment rose from 1.3 million in 2019 to 2 million in 2021.

⁶ This was exacerbated by potential structural issues such as low participation in the labour force and skills mismatch with jobs for these vulnerable segments respectively.
⁷ BNM's Regional Economic Surveillance indicates more than half of surveyed firms would reduce wages or lower working hours, with minority opting for trimmed headcount.
⁸ Own-account workers are defined as persons who operate own farm, business or trade without employing any paid workers in the conduct of the farm, business or trade (Source: DOSM). Gig workers are classified as part of own-account workers.
⁹ DOSM's Informal Sector Workforce Survey Report 2019 and Statistics on Informal Sector and Informal Employment Malaysia, 2021.

The pandemic had disproportionately affected vulnerable segments in the labour market, notably women and youth

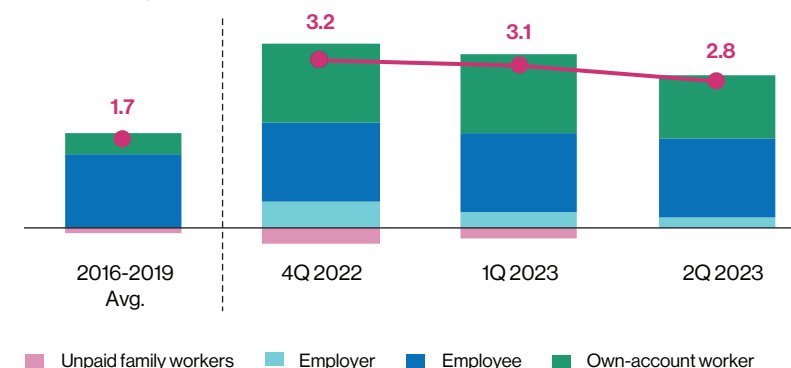
Chart 7: Unemployment Rate for Youth (25-34) and Women %



Source: Department of Statistics, Malaysia

Employment growth was driven by the expansion in the formal sector and to some extent the surge in own-account workers

Chart 8: Employment Growth by Type Annual change (%)



Source: Department of Statistics, Malaysia

Box Article

Malaysia's Economic Resilience: A Post-pandemic Analysis

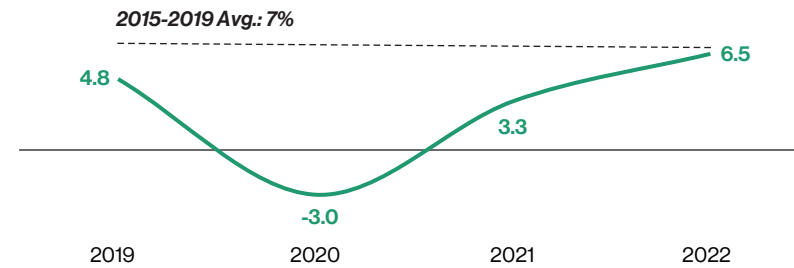
In tandem with the recovery in employment, income, as measured by the compensation of employees (COE), recorded a strong rebound from -3% in 2020 to grow by 6.5% in 2022 (2015-2019 average: 7%) (Chart 9).¹⁰ In addition to COE, own-account workers, which account for 18.4% of total employed persons in 2Q 2023 (4Q 2019: 17%), were also able to generate income through self-employed work and the gig economy.

The labour force participation rate has also improved to above pre-pandemic levels, reaching a historical high of 70% of the working-age population as of 2Q 2023 (Chart 10).

Moving forward, employment and income growth is expected to remain resilient throughout 2024 amid continued expansion in economic activities.

Income of workers in formal employment rebounded strongly from the pandemic, edging closer to its long-term average

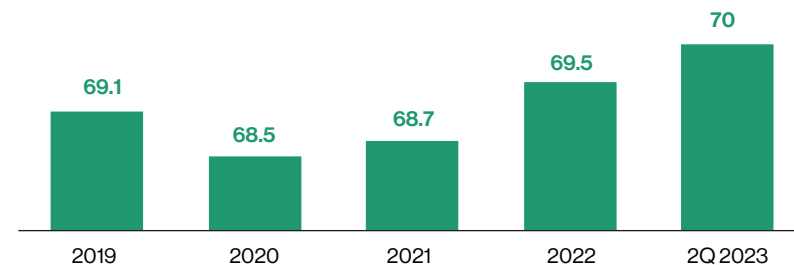
Chart 9: Compensation of Employees
% year-on-year growth



Source: Department of Statistics, Malaysia

Labour force participation reached a historic high

Chart 10: Labour Force Participation Rate
% of working-age population



Source: Labour Force Survey, Department of Statistics, Malaysia

¹⁰ For wage levels, private sector wages rebounded from -2.5% in 2020 to 6.7% in 2022 (Services - 2020: -3.3%, 2022: 7.5%; Manufacturing - 2020: -1.1%, 2022: 5.2%).

Box Article

Malaysia's Economic Resilience: A Post-pandemic Analysis

Robust economic fundamentals have enabled the country to weather the moderation in external demand

The economic recovery has been a litmus test of our country's fundamentals. Malaysia's economy has exhibited agility in navigating the new post-pandemic landscape. In terms of economic composition, Malaysia continues to benefit from a highly diversified economy, anchored by the services and manufacturing sectors. This can be further strengthened by the pursuit of high-value added industries and greater technology adoption, reducing vulnerability to industry-specific downturns, and utilising the country's comparative advantage.

Amid a more moderate external demand in 2023, Malaysia's exports has slowed down, in line with regional countries. However, exports remained resilient relative to pre-pandemic levels. Furthermore, the labour market remained robust, sustaining the growth in income and employment. This has supported the resilience in domestic demand, alongside the recovery in tourism-related sectors and the realisation of multi-year investment projects.

In all of this, Malaysia's financial sector has played an integral role in supporting businesses and households, including providing repayment and financial assistance. The country's robust financial sector will continue to support the economy in facing future economic shocks.

CONCLUSION

The COVID-19 pandemic shock and the subsequent recovery have presented valuable policy lessons on the economy's resilience. Diversification of the economy had contributed to the growth recovery. Going forward, the recent national master plans such as the Twelfth Malaysia Plan (RMK-12), National Industrial Master Plan (NIMP), and National Energy Transition Roadmap (NETR) have charted the path ahead for the economy. The timely implementation of the strategies and reforms under these masterplans are expected to set a strong foundation for Malaysia's future prospects.

The Bank's Policy Considerations

Highlights of the November MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 3.00% at the November 2023 MPC meeting.
- The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth.



Monetary policy remains supportive of the economy

The MPC decided to maintain the OPR at 3.00% over the third quarter in its September and November 2023 MPC meetings.

At the recent November MPC meeting, the MPC assessed that the global economy continues to expand, driven by domestic demand amid strong labour market conditions. Some signs of recovery are emerging in the electrical and electronics (E&E) sector, but global trade remains soft partly due to the shift in spending from goods to services, and ongoing trade restrictions. Global growth is weighed down by persistently elevated inflation and higher interest rates, with several major economies experiencing slowing growth momentum. There are early signs of improvement in China's growth, though its property market

remained weak. Global headline inflation edged up partly due to higher commodity prices, while core inflation continued to moderate. For most central banks, the monetary policy stance is likely to remain tight. The growth outlook remains subject to downside risks, mainly from higher-than-anticipated inflation outturns, an escalation of geopolitical tensions, and a sharp tightening in financial market conditions.

As at the November MPC meeting, the advance GDP estimate had pointed to an improvement in domestic economic activity in the third quarter. The MPC assessed that growth in 2024 will be driven mainly by resilient domestic expenditure, with some support emanating from the expected recovery in E&E exports. Continued employment and wage growth remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be supported by continued progress of multi-year infrastructure projects, and implementation of catalytic initiatives under the national master plans. Measures under Budget 2024 will also provide additional impetus to economic activity. The growth outlook remains subject to downside risks stemming from weaker-than-expected external demand and larger and protracted declines in commodity production. Meanwhile, upside risks to growth mainly emanate from stronger-than-expected tourism activity, a stronger recovery from the E&E downcycle, and faster implementation of existing and new projects.

The Bank's Policy Considerations

As expected, both headline and core inflation have moderated, mainly due to easing cost pressures. In the third quarter, headline and core inflation averaged at 2.0% and 2.5%, respectively. Going into 2024, inflation is expected to remain modest. Risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. Of note, the Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.

The expectations of a higher-for-longer interest rate environment in the US, and increased concerns over the escalation of geopolitical tensions have contributed to a persistently strong US dollar. This has affected other major and emerging market currencies, including the ringgit. Nevertheless, these developments are not expected to derail Malaysia's growth prospects. Bank Negara Malaysia will continue to manage risks of heightened volatility, including to provide liquidity, to ensure the orderly functioning of the domestic foreign exchange market. Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth.

At the current OPR level, the MPC deemed that the monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

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Macroeconomic Outlook



Tighter monetary policy to weigh on global growth

Global growth expected to moderate before recovering gradually in 2H 2024

The global economy is expected to grow at a slower pace in 2024. The impact from tight monetary policy is expected to intensify in subsequent quarters, before dissipating towards 2H 2024. Global inflation would likely moderate further, with commodity prices posing a clear upside risk. China's growth would moderate in 2024, as reopening support dissipates and property market remains in a downturn. Global trade recovery is likely to be gradual given persistent headwinds from trade restrictions and ongoing shift in consumption from goods to services.

Downside risks stem mainly from higher-than-expected inflation, escalation of geopolitical tensions and a sharp tightening in financial market conditions. However, upside risk to global growth can arise from stronger-than-expected domestic demand, particularly in advanced economies.



Malaysian economy to expand further

Resilient domestic demand to support growth

Going forward, growth of the Malaysian economy will be driven largely by resilient domestic expenditure, with some support from E&E exports recovery. Household spending will be supported by steady growth in employment and wage growth. Tourist arrivals and spending are expected to improve further. Additionally, continued progress of multi-year infrastructure projects and implementation of catalytic initiatives will support investment activity. Budget 2024 measures will also provide additional impetus to economic activity. Meanwhile, domestic financial conditions remain conducive to sustain credit growth, as financial institutions continue to operate with strong capital and liquidity buffers.

The growth outlook is subject to downside risks from weaker-than-expected external demand, and larger and protracted declines in commodity production. Nevertheless, stronger-than-expected tourism activity, a stronger recovery from the E&E downcycle, and faster implementation of projects provide upside to Malaysia's economic outlook.

Macroeconomic Outlook



Headline and core inflation to remain moderate for remainder of 2023

Headline inflation is expected to average between 2.5 – 3.0% for the year as a whole

In line with expectations, headline and core inflation have continued to ease through the year amid the more moderate cost conditions. This would likely continue for the remainder of 2023 amid moderate momentum of price increases. Overall, headline inflation is expected to average between 2.5% and 3.0% in 2023.¹

Moving into 2024, headline and core inflation are projected to remain modest barring further cost shocks. However, risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. Of note, the Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.

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¹ Source: Economic Outlook 2024, Ministry of Finance Malaysia.

Annex

Table 1: GDP by Expenditure Components (at constant 2015 prices)

	Share 2022 (%)	2022			2023		
		3Q	4Q	Year	1Q	2Q	3Q
		Annual growth (%)					
Aggregate Domestic Demand (excluding stocks)	93.1	13.2	6.8	9.2	4.6	4.5	4.8
Private sector	75.5	14.4	7.8	10.3	5.6	4.5	4.5
Consumption	60.2	14.8	7.3	11.2	5.9	4.3	4.6
Investment	15.3	13.2	10.3	7.2	4.7	5.1	4.5
Public sector	17.6	7.9	3.9	4.7	-0.3	4.6	6.2
Consumption	13.2	6.5	3.0	4.5	-2.2	3.8	5.8
Investment	4.4	13.1	6.0	5.3	5.7	7.9	7.5
Net Exports	5.5	26.2	23.0	-1.0	54.4	-3.7	-22.7
Exports of Goods and Services	74.6	21.5	8.6	14.5	-3.3	-9.4	-12.0
Imports of Goods and Services	69.1	21.1	7.2	15.9	-6.5	-9.7	-11.1
Real GDP	100.0	14.1	7.1	8.7	5.6	2.9	3.3
GDP (q-o-q growth, seasonally adjusted)	-	2.2	-1.7	-	0.9	1.5	2.6

Note: Figures may not add up due to rounding and exclusion of stocks.

Source: Department of Statistics, Malaysia

Table 2: GDP by Economic Activity (at constant 2015 prices)

	Share 2022 (%)	2022		2023		
		3Q	4Q	1Q	2Q	3Q
		Annual growth (%)				
Services	58.3	16.7	9.1	7.3	4.7	5.0
Manufacturing	24.1	13.1	3.9	3.2	0.1	-0.1
Agriculture	6.6	1.2	1.1	1.0	-1.0	0.8
Mining	6.4	9.1	6.3	2.4	-2.3	-0.1
Construction	3.5	15.3	10.1	7.4	6.2	7.2
Real GDP	100.0	14.1	7.1	5.6	2.9	3.3

Note: Numbers do not add up due to rounding and exclusion of import duties component.

Source: Department of Statistics, Malaysia

Table 3: Balance of Payments¹

	2022		2023		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	19.0	27.5	4.3	9.1	9.1
(% of GDP)	4.2	5.9	1.0	2.1	2.0
Goods	47.3	57.7	39.9	29.5	32.7
Services	-11.2	-12.1	-12.8	-11.3	-10.3
Primary income	-14.3	-11.6	-16.9	-6.3	-11.0
Secondary income	-2.8	-6.5	-5.9	-2.8	-2.2
Financial Account	-17.5	-1.1	-2.4	-11.6	14.9
Direct investment	-0.9	-9.3	10.9	-4.9	-6.1
Assets	-18.3	-24.1	-2.5	-9.8	-13.3
Liabilities	17.4	14.8	13.4	4.9	7.2
Portfolio investment	0.5	-26.7	-33.3	8.1	-14.1
Assets	2.6	-15.0	-16.3	-10.1	-15.4
Liabilities	-2.1	-11.7	-17.0	18.3	1.3
Financial derivatives	-0.4	-1.7	-0.9	0.3	0.5
Other investment	-16.5	36.6	20.9	-15.1	34.6
Net errors & omissions²	11.9	-3.8	-7.6	-9.9	-16.3
Overall Balance	13.2	22.5	-5.7	-12.4	7.7

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.

Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.

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

² As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.

Note: Numbers may not add up due to rounding

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table 4: Outstanding External Debt

	2022	2023	
	end-Sep	end-Jun	end-Sep
	RM billion		
Total External Debt	1,169.6	1,213.1	1,252.0
USD billion equivalent	252.2	258.9	267.0
By instrument			
Bonds and notes	194.7	175.8	175.6
Interbank borrowings	221.3	216.4	238.4
Intragroup loans	155.7	173.2	185.2
Loans	75.0	80.8	82.7
Non-resident holdings of domestic debt securities	254.3	267.9	269.7
Non-resident deposits	111.4	134.3	138.9
IMF allocation of Special Drawing Rights (SDRs)	28.6	30.2	29.7
Others	128.4	134.5	131.7
Maturity profile			
Medium- and long-term	684.0	706.6	722.5
Short-term	485.6	506.5	529.5
Currency denomination			
Ringgit	377.2	405.5	410.0
Foreign	792.4	807.6	842.0
Total debt / GDP (%)	66.9	67.1	69.0
Short-term debt / Total debt (%)	41.5	41.8	42.3
Reserves / Short-term external debt (times)	1.0	1.0	1.0

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

Annex

Table 5: Credit to the Private Non-Financial Sector

	2022	2023		2022	2023	
	3Q	2Q	3Q	3Q	2Q	3Q
	End-period (RM billion)			Annual change (%)		
Total Credit to the Private Non-Financial Sector¹	2,579.5	2,647.0	2,688.5	5.3	3.7	4.2
Outstanding corporate bonds ²	542.9	561.5	570.2	4.0	4.9	5.0
Outstanding loans ^{3,4}	2,036.6	2,085.5	2,118.4	5.7	3.4	4.0
Businesses	744.7	747.6	756.4	4.7	0.5	1.6
SMEs	349.7	367.0	373.2	6.1	6.4	6.7
Non-SMEs	391.1	376.9	379.6	3.6	-4.3	-2.9
Households	1,291.9	1,388.0	1,361.9	6.2	5.1	5.4
Credit to Businesses ⁵	1,287.6	1,309.1	1,326.6	4.4	2.3	3.0

¹ Starting with the 4Q 2022 Quarterly Bulletin, credit to the private non-financial sector was introduced to enhance the quality of data on financing channelled towards the generation of domestic economic activity. This replaces the previous series on net financing to the private sector.

² Includes conventional and Islamic short-term papers in addition to longer-term bonds and sukuk; excludes issuances by Cagamas, government, financial institutions and non-bank financial institutions.

³ Loans by the banking system and development financial institutions (DFIs). Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.

⁴ Excludes loans sold to Cagamas without recourse.

⁵ Comprises outstanding loans to businesses and outstanding corporate bonds.

Note: Numbers may not add up due to rounding.

Source: Bank Negara Malaysia

Table 6: Loan Indicators¹

	2022	2023		2022	2023	
	3Q	2Q	3Q	3Q	2Q	3Q
	During the period (RM billion)			Annual Change (%)		
Total Private Non-Financial Sector²						
Loan applications	402.0	371.0	419.5	53.3	2.6	4.4
Loan approvals	218.3	190.9	215.0	63.3	6.2	-1.5
Loan disbursements	519.9	525.0	561.3	23.5	-1.8	8.0
Loan repayments	530.4	526.3	552.0	26.7	-1.0	4.1
Of which:						
Businesses³						
Loan applications	173.8	139.4	182.0	49.5	2.8	4.7
Loan approvals	114.5	85.3	105.8	48.8	6.8	-7.6
Loan disbursements	402.2	400.9	426.5	17.8	-5.6	6.0
Loan repayments	417.4	404.2	426.9	24.0	-4.3	2.3
SMEs						
Loan applications	84.7	81.9	106.9	48.7	7.6	26.3
Loan approvals	49.1	46.2	51.9	60.1	18.1	5.8
Loan disbursements	125.9	128.8	133.1	33.6	2.6	5.7
Loan repayments	124.7	122.5	130.2	34.2	-1.1	4.4
Non-SMEs						
Loan applications	88.0	57.4	74.9	48.9	-3.3	-14.9
Loan approvals	65.1	39.1	52.9	40.8	-4.0	-18.8
Loan disbursements	274.9	270.9	292.3	11.5	-8.9	6.4
Loan repayments	291.1	279.8	295.6	20.0	-6.0	1.5
Households						
Loan applications	228.2	231.7	237.6	56.3	2.5	4.1
Loan approvals	103.8	105.6	109.2	82.8	5.7	5.3
Loan disbursements	117.8	124.1	134.8	48.1	12.8	14.5
Loan repayments	113.0	122.1	125.1	37.6	12.0	10.7

¹ Loans for all segments include data from the banking system and development financial institutions (DFIs).

² Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.

³ Numbers for SMEs and Non-SMEs may not add up to total businesses given the inclusion of those with no classification by firm size.

Note: Numbers may not add up due to rounding.

Source: Bank Negara Malaysia

Annex

Table 7: Banking System Profitability Indicators

	2022	2023		2022	2023	
	3Q	2Q	3Q ^p	3Q	2Q	3Q ^p
	%			Annual change (percentage points)		
Return on equity ¹	12.4	11.6	11.5	2.9	-0.2	-0.9
Return on assets ¹	1.4	1.3	1.3	0.29	-0.03	-0.11
	RM million			Annual change (%)		
Net interest income	16,280	14,676	14,789	18.7	-5.2	-9.2
Add: Fee-based income	2,925	3,015	3,152	2.2	6.4	7.8
Less: Operating cost ²	9,995	10,809	10,745	13.9	17.1	7.5
Gross operating profit	9,210	6,882	7,197	18.1	-24.2	-21.9
Less: Impairment ³ and other provisions	1,657	836	923	-38.4	-8.1	-44.3
Gross operating profit after provision	7,553	6,045	6,274	47.9	-26.0	-16.9
Add: Other income ¹	4,554	5,155	4,169	70.1	66.9	-8.5
Pre-tax profit¹	12,107	11,200	10,442	55.5	-0.5	-13.7

^p Preliminary

¹ Banking system profits are aggregated at the entity level. The aggregated results for 2019 onwards are subsequently adjusted for dividend income received from domestic banking subsidiaries (previously added at both the parent and subsidiary levels). The adjustment is reflected under 'Other income'. Differences in comparative pre-tax figures reported in previous Quarterly Bulletins are estimated to range between 5.5% and 10.7%.

² Refers to staff costs and overheads.

³ Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).

Source: Bank Negara Malaysia

Table 8: Insurance and Takaful Sector Profitability Indicators

	2022	2023		2022	2023	
	3Q	2Q	3Q ^p	3Q	2Q	3Q ^p
	RM million			Annual change (%) ²		
Life Insurance & Family Takaful						
Excess income over outgo ¹	-27	1,045	798	-101.5	123.8	3,108.2
General Insurance & General Takaful						
Operating profit	955	902	863	3.0	19.7	-9.7
Claims ratio (%)	52	57	58	0.0	-7.4	6.0

^p Preliminary

¹ Excess income over outgo excludes investment-linked unit funds to reflect the core performance of ITOs' profitability more accurately and thus, may not be directly comparable to the data reported in previous publications.

² Refers to percentage points for the annual change of claims ratio.

Source: Bank Negara Malaysia

Annex

Table 9: Federal Government Finance¹

	2022		2023		
	3Q	4Q	1Q	2Q	3Q ^p
	RM billion				
Revenue	83.3	86.8	76.2	72.2	77.9
<i>Annual growth (%)</i>	61.7	14.3	21.5	17.3	-6.5
Operating expenditure	69.2	93.7	66.6	77.2	69.7
<i>Annual growth (%)</i>	36.5	47.8	3.1	18.4	0.8
Current account	14.1	-7.0	9.6	-5.0	8.1
Net development expenditure	15.6	24.7	26.2	17.9	19.6
<i>Annual growth (%)</i>	-29.5	86.0	57.7	33.6	25.9
COVID-19 Fund ²	5.6	15.9	0.0	0.0	0.0
Overall balance	-7.1	-47.6	-16.6	-22.9	-11.5
Memo:					
Total net expenditure	90.3	134.3	92.8	95.1	89.3
<i>Annual growth (%)</i>	16.1	47.7	7.2	15.0	-1.1
Total Federal Government debt (as at end-period)	1074.8	1079.6	1120.4	1145.0	1156.7
Domestic Debt	808.3	821.5	849.3	863.5	875.0
External Debt	266.5	258.1	271.2	281.5	281.7
<i>Non-resident holdings of RM-denominated debt</i>	241.0	233.1	246.2	255.9	256.5
<i>Offshore borrowing</i>	25.4	25.0	24.9	25.6	25.2

^p Preliminary¹ Figures may not add up due to rounding.² A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia