BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE THIRD QUARTER OF 2023

Press Conference Presentation Transcript

Moderate global growth in 3Q 2023

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Global growth in the third quarter of 2023 was moderate, weighed by higher interest rates and elevated inflation. China's growth showed early signs of improvement as consumption rose, though its property market remained weak.

While global core inflation continued to moderate, headline inflation edged up albeit temporarily, partly due to higher commodity prices. Regional exports showed tentative signs of recovery. This was in line with a nascent turnaround in the global E&E sector. However, headwinds remain due to moderating demand conditions, shift in consumption from goods to services, and ongoing trade restrictions."

Malaysia's GDP grew by 3.3% in 3Q 2023

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin *berkata, "Pada suku ketiga 2023, ekonomi Malaysia berkembang 3.3%, disokong oleh peningkatan permintaan dalam negeri, pasaran buruh yang terus bertambah baik, serta aktiviti pelancongan dan pembinaan yang semakin rancak. Namun, permintaan luar negeri yang lemah dan pengeluaran perlombongan yang lebih rendah telah menjejaskan pertumbuhan ekonomi negara. Dari segi pertumbuhan suku tahun ke suku tahun pelarasan musim, KDNK* *menunjukkan momentum pertumbuhan yang lebih kukuh iaitu mencatatkan sebanyak 2.6%, iaitu peningkatan berterusan sejak suku keempat. Manakala melihat kepada KDNK bulanan, pertumbuhan KDNK pada bulan Julai adalah sebanyak 4.2%, pada bulan Ogos 3.2%, dan pada bulan September 2.5%."*

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "In the third quarter of 2023, the Malaysian economy grew by 3.3%, supported by expansion in domestic demand, continued improvement in labour market conditions, and rising tourism and construction activities. However, the weaker external demand and lower mining production has weighed on growth. On seasonally adjusted quarter-on-quarter basis, GDP this quarter showed a stronger growth momentum of 2.6%, which is a continued improvement since the fourth quarter of 2022."

Expansion in domestic demand, with services and construction sectors supporting growth

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "On the expenditure side, expansion in domestic demand was driven by both private and public sector spending. Higher private consumption growth benefited from favourable labour market conditions, with expansion in both necessities and discretionary spending. Growth in investments reflects continued capacity expansion by businesses, as well as fixed asset spending by the Government and capital expenditure by public corporations. However, net exports continued to contract as weaker external demand weighed on goods exports growth.

"Looking at the supply side, growth is driven mainly by the services sector and construction sector. Growth in the services sector improved across both consumer- and business-related subsectors. The sector also continued to benefit from improving tourism-related spending.

"For the construction sector, growth was supported by the progress of ongoing large infrastructure and small-scale projects.

"Meanwhile, the manufacturing sector recorded a marginal contraction mainly on account of further weakness in E&E cluster and lower production of refined petroleum products."

Continued current account surplus and FDI inflows

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin, said, "Malaysia's Current Account Balance (CAB) in the third quarter of 2023 recorded a continued surplus of RM9.1 billion, equivalent to 2 per cent of the GDP, mainly supported by goods surplus, followed by lower deficit in the Services and Secondary income account. The Services account recorded a lower deficit of RM10.3 billion in the third quarter of 2023, supported by the continued recovery in inbound tourism and construction.

"On the income front, the Primary income account posted higher deficit of RM11 billion, mainly due to higher income generated by foreign companies in Malaysia. Meanwhile, the Secondary income account registered a lower deficit of RM2.2 billion.

"During this quarter, foreign direct investment (FDI) posted a higher net inflow of RM7.2 billion as against RM3.1 billion in the preceding quarter. The higher FDI inflows were supported by larger inflows in debt instruments and continued equity injections from foreign investors. The largest recipient of FDI was the services sector, mainly in financial and mining & quarrying sectors. Hong Kong, China and the United Kingdom were the primary sources of FDI during this quarter.

"In the meantime, direct investment abroad (DIA) outflows expanded to RM13.4 billion, particularly in services sector. The top three destinations of DIA were Indonesia, Angola and Vietnam."

Further expansion in domestic demand and improvement in external demand to support growth in 2024

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "As we can observe from the GDP performance in the third quarter, the impact of weaker external demand on the economy was cushioned by the resilience of domestic demand.

"Looking ahead, Malaysia's economy is expected to grow between 4% – 5% in 2024, underpinned by continued expansion in domestic demand, and improvement in external demand.

"The key factors driving growth are: first, better employment and income prospects, which will help strengthen domestic demand; second, the realisation and progress of multi-year projects; third, improvement in the global tech cycle, which is expected to lead to higher trade activities; and fourth, continued increase in tourist arrivals, which will spur growth in tourism-related sectors."

Household spending to remain as anchor of growth

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, **"**Household spending will remain the anchor for growth, and this is driven by continued employment and improvement in income levels, sound financial buffers, and support from targeted government measures."

Favourable labour market conditions going forward

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, **"**The favourable labour market conditions is the key driver for household spending.

"Unemployment rate declined to 3.4% in the third quarter and is expected to improve further by the end of 2023. The gradual decline in unemployment was driven mainly by continued expansion in employment.

"Going forward, strong job creation data suggests that employment will continue to expand. Furthermore, labour participation rate is also at a historical high of 70.1%. These factors would support further growth in income and consumer spending."

Investment activity will be supported by realisation of projects, easing supply conditions and structural policy measures

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Looking ahead, investment activity will be supported by progress of new and existing projects, for example in E&E manufacturing and data centres. Investment would also be boosted by factors such as easing labour supply, stabilisation of input cost, and implementation of structural policy measures through the NIMP and NETR, which includes projects such as the Kasawari Carbon Capture and Storage and EV charging stations.

"I must re-emphasise that these investments are not only important in supporting immediate growth, but also to enhance Malaysia's future growth potential and competitiveness.

"In this regard, it is crucial to ensure that the high investment intentions and plans are facilitated and realised."

While exports declined, it exhibited relative resilience amidst a challenging global landscape

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "While exports declined in 3Q 2023, as the slowdown in global trade in goods and a high base in 3Q 2022, this is offset by the higher travel receipts during the quarter.

"Notwithstanding this, Malaysia's diversified exports structure has also partly contributed to export resilience. This is reflected in our export performance, which started to decline much later than some regional economies, with smaller magnitude of contraction.

"There are also some signs of stabilisation in export growth as reflected in the turnaround in the quarter-on-quarter seasonally adjusted export growth."

Exports to gradually recover going forward, supported by pick up in global tech cycle and tourism activity

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Exports are expected to gradually recover in the near term. The global semiconductor sales, which have been declining in 1H 2023, is showing some signs of turn-around recently. The World Semiconductor Trade Statistics (WSTS) is projecting a positive growth of 11.8% in 2024, as compared to a contraction of 10.3% in 2023, which will help to lift our exports, especially in E&E products.

"In addition, tourism-related activities are expected to pick up further. In 3Q 2023, travel receipts have reached 78% of the corresponding period in 2019. This is expected to continue to recover moving forward and return to pre-pandemic level in 2024."

Inbound tourism continues to recover towards pre-pandemic level, in line with regional economies

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "As of 1H 2023, tourist arrivals in Malaysia have reached about 70% of the pre-pandemic level, in line with most economies in the region.

"The recovery is driven mainly by regional tourists from Singapore, Indonesia and Thailand, with Chinese tourists having the largest room for catch up growth in 2024, providing good prospects for Malaysia to benefit. Given this, we should intensify our efforts towards ensuring Malaysia continues to be an attractive global tourist destination.

"By the way, I should mention that although the chart on the RHS here shows tourist arrival from China being an outlier, as we have explained earlier, this owes much to factors such as the lack of flights and issues with passport renewals in China when they reopened. These constraints are easing. The latest figures which will be released soon will show a much improved figure."

Growth remains subject to risks from both external and domestic factors

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "The overall growth projection of 4% to 5% next year is subject to both upside and downside risks."

"On the global front, slower-than-expected recovery in external demand is the key downside risk factor. On the domestic front, weaker labour market conditions, more severe shocks on commodity production due to stronger impact from El Nino, and prolonged plant maintenance could also potentially weigh on the growth outlook.

"There are also upside risks from stronger-than-expected tourism activity; faster recovery from tech cycle downturn as well as a larger impact from the progress of multi-year investment projects and policy measures under national master plans and blueprints that were announced recently by the Government."

Malaysia's Economic Resilience: A Post-pandemic Analysis

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "As of 2Q 2023, on a seasonally adjusted basis, Malaysia's GDP had exceeded pre-pandemic levels by more than 10%. The recovery was led mainly by the manufacturing and services sectors.

"Despite the external challenges, Malaysia's diversified exports and tourism rebound have contributed to the country's trade resilience. Furthermore, the improving labour market provided job and income opportunities, especially for the vulnerable segments.

"In essence, our economic fundamentals have enabled the country to weather the current slowdown in external demand, and the outlook is for further improvement in our growth prospects."

Disinflation trend continued with lower headline and core inflation

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "In line with the easing cost environment, headline inflation continued to trend lower, averaging at 2% for the third quarter (2Q 2023: 2.8%). Much of this downtrend was driven by lower core inflation, which contributed around half of the decline during the third quarter. This also partly reflected effects from the higher base in the third quarter of 2022.

"Core inflation moderated to 2.5% during the quarter (2Q 2023: 3.4%) mainly due to lower inflation for core services, such as food away from home, expenditure at restaurants and café, and repair and maintenance of personal transport. The moderation in core inflation is expected to continue until end of the year."

Going forward, the inflation outlook remains highly subject to domestic policy factors, global commodity prices and financial market developments

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "For 2024, headline inflation is expected to average between 2.1% and 3.6% based on the outlook by the Ministry of Finance. The wide range partly accounts for some upside impact from proposed subsidy rationalisation measures, where a more precise details of these policies are currently being finalised. We will continuously evaluate their implications to the inflation outlook going forward based on the final implementation of these policies.

"In addition to the domestic policy factors, risks to the inflation outlook could also stem from global developments. Near-term upside risks include higher global commodity prices from geopolitical conflicts and potential disruptions from the El Nino weather phenomenon, as well as higher import prices amid exchange rate pressures. These risks could be offset by more subdued global commodity prices driven by weaker-than-expected global growth, as well as more favourable weather conditions leading to lower pressure on food prices."

The OPR was maintained at 3.00% at the November MPC meeting

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Turning to monetary policy, the MPC maintained the OPR at 3.00% at the November 2023 MPC meeting.

"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.

"As I mentioned earlier, growth next year will be mainly driven by resilient domestic expenditure. Inflation is also expected to remain modest.

"Going forward, the MPC will remain 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."

The ringgit depreciated in a strong USD environment

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "The ringgit depreciated against the US dollar in the third quarter. This trend was also observed among other regional currencies, due primarily to external factors including the US monetary policy path.

"Malaysia's economy today is resilient notably in terms of our economic fundamentals, robustness of our financial sector, and depth of our financial markets. The persistently strong US dollar is therefore not expected to derail Malaysia's growth prospects.

"Going forward, global financial market uncertainties are expected to ease – barring any new adverse developments such as heightening geopolitical tensions – as financial markets expect the US policy rate to be reduced next year. This should ease US dollar strength and thus reduce depreciation pressure on the ringgit."

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Portfolio investment recorded a net outflow amid external uncertainty

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, **"**However, of late, we have experienced outflows from portfolio investment. In the third quarter, portfolio investment recorded a net outflow of RM14.1 billion compared to an inflow of RM8.1 billion in the second quarter of the year due mainly to higher residents' investments in equity and debt securities abroad.

"This also reflected the liquidation of domestic debt securities by non-resident investors, which has partially offset non-residents' acquisition of equity securities in Malaysia.

"To ensure balanced two-way flows, we encourage domestic investors to seek investment opportunities domestically, repatriate export and foreign income and investment proceeds, and sequence foreign investments.

"Ongoing and future investment projects and structural policy measures will enhance Malaysia's future potential growth and competitiveness, which will attract foreign investments. This will provide more sustainable support to the ringgit in the longer-term.

"That being said, I want to emphasise that the Bank remains committed to ensure the ringgit adjusts in an orderly manner and in the longer term, it should reflect our economic fundamentals."

Malaysian bond yields and equities rose

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "In the bond market, bond yields on the 10-year MGS rose in line with regional peers amid the increase in US bond yields. Investors were largely expecting the US policy rate to remain higher-for-longer.

“On domestic equity markets, the announcement of structural reforms, including various national master plans, boosted prospects of corporate earnings of companies in the KLCI.

“Such structural reforms reflect Malaysia’s ongoing policy imperatives. Greater investor confidence in Malaysia’s growth prospects will eventually support a real appreciation in the exchange rate as external uncertainties recede.”

Credit growth improved following expansion in business loans

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Turning to credit conditions, credit to the private non-financial sector expanded by 4.2% as at end of the third quarter, driven mainly by higher growth in business loans (1.6%; 2Q 2023: 0.5%), while the growth in outstanding corporate bonds was sustained at 5.0% (2Q 2023: 4.9%). For households, outstanding loans grew by 5.4% (2Q 2023: 5.1%), with sustained growth recorded across key purposes.

“In terms of credit flows, loan disbursements have remained forthcoming across both the business and household segments.”

Banks continued to meet SME financing needs in 3Q 2023

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Financing by banks and DFIs continued to support SMEs’ business needs in the third quarter, with outstanding financing growing at 6.7%.

“Approval rates have been higher than the pre-pandemic levels, indicating banks are meeting the strong financing demand for investment-related and working capital purposes. Strong financing activity on both fronts reflect the improved business activity and elevated cash flow needs amid a challenging operating environment.

“In 3Q 2023, we saw financing disbursements sustained at high levels, particularly for working capital purposes. Disbursement growth for working capital purposes was primarily driven by the services sectors, notably in the wholesale and retail trade, real estate and information and communication sectors."

Banks remain well-positioned to support financial intermediation needs

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Turning now to the banking system's resilience. As indicated earlier, the banking system continued to play an important role in supporting growth during the quarter.

"Owing to their strong financial position, including high levels of capital and liquidity buffers, banks remain well-positioned to support the financing needs of the domestic economy.

"The quality of business and household loans remains sound, with the share of loans with higher credit risk and borrowers receiving repayment assistance moderating. Impairment ratios remain low and stable as well. These improvements have been supported by prudent loan affordability assessments by banks, which help to ensure that borrowers have buffers against rising costs.

"Even with these stable levels of impairments, banks remain prudent in their provisioning for potential loan losses, given an environment of rising costs and uneven recovery.

"For borrowers who continue to face financial difficulties, I wish to emphasise that bespoke loan repayment assistance from banks and AKPK remains available."

Malaysia's macroeconomic fundamentals remain supportive of growth

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Let me iterate that Malaysia's economic fundamentals remain strong and supportive of growth moving forward.

“GDP has exceeded its pre-pandemic levels, with continued improvement in labour market conditions.

“Malaysia’s diversified exports destination and products will cushion the impact from moderating global demand.

“Our external position remains strong despite the external headwinds, with sustained net creditor position and continued surplus in the current account balance.

“In addition, our deep financial markets and strong financial sector will continue to ensure efficient financial intermediation and contribute towards economic growth.”

Summary

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “In summary, the Malaysian economy expanded by 3.3% in the third quarter of 2023, driven mainly by private sector expenditure. The 2.6% growth in seasonally adjusted quarter-on-quarter number also indicates a positive momentum in economic activity.”

“For 2024, growth is projected to improve to between 4% and 5%, anchored by domestic demand.”

There are downside as well as upside risks to growth, stemming from both external and domestic factors. Headline inflation is expected to average between 2.1% and 3.6% for 2024.”

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