BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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Economic and Financial Developments in Malaysia in the First Quarter of 2024

Press Conference Presentation Transcript

Sustained global growth in 1Q 2024, amid improvement in regional trade

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Global growth in the first quarter of 2024 remained sustained – as resilient labour markets continued to support consumption activities.

"Regional exports saw a turnaround amid further improvement in both electrical and electronics (E&E) and non-E&E industries. However, global trade as a whole remained soft due to the continued shift in spending from goods to services and ongoing trade restrictions.

"Both headline and core inflation continued to trend downward, driven by disinflation in advanced economies."

Malaysia's GDP registered a higher growth of 4.2% in 1Q 2024

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin *berkata, Pada suku pertama 2024, ekonomi Malaysia berkembang pada kadar yang lebih tinggi sebanyak 4.2%. Peningkatan ini disokong oleh perbelanjaan isi rumah yang meningkat, pemulihan eksport barangan serta ketibaan pelancong yang lebih tinggi, pasaran buruh yang terus bertambah baik dan aktiviti pelaburan yang lebih kukuh.*

“Dari segi pengeluaran, sektor perkhidmatan meningkat 4.7%, sektor pembuatan meningkat 1.9%, sektor perlombongan 5.7% dan sektor pembinaan 11.9%. Manakala, dari segi permintaan, perbelanjaan isi rumah meningkat 4.7%, sektor pelaburan swasta meningkat 9.2%, sektor pelaburan awam 11.5%, penggunaan Kerajaan meningkat 7.3% dan pada suku tahun ini, eksport meningkat 5.2% dan import 8%.

“Dari segi pertumbuhan suku tahun ke suku tahun pelarasan musim, KDNK menunjukkan peningkatan momentum pertumbuhan yang lebih kukuh sebanyak 1.4%, lebih tinggi berbanding penyusutan 1% pada suku keempat 2023.

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “In the first quarter of 2024, the Malaysian economy expanded by a higher rate of 4.2%. This was supported by higher household spending, exports turnaround and higher tourist arrivals, improving labour market conditions and stronger investment activities.

“On a seasonally adjusted quarter-on-quarter basis, GDP showed a stronger growth momentum of 1.4%, higher than the decrease of 1% in the fourth quarter of 2023.”

Growth underpinned by stronger private sector expenditure amid higher growth in most sectors

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “On the expenditure side, expansion in domestic demand was driven mainly by private sector spending.

“Private consumption recorded higher growth supported by spending in discretionary and necessities items.

“Growth in investments reflects improvement in structures and M&E investments, as well as continued fixed asset spending by the Government and public corporations.

“Meanwhile, net exports registered a smaller contraction amid recovering goods and services’ exports.

“On the supply side, most sectors recorded higher growth.

“Growth in the services sector was driven by higher retail trade activities and continued support from the transport and storage subsector.

“Meanwhile, the manufacturing sector turned around to record positive growth following the improvement in the E&E and the primary-related clusters.

“Higher growth in the construction sector was driven by the faster progress in civil engineering projects and stronger support from special trade and residential activities.

“Growth in the mining sector was supported by higher natural gas output.

“However, the agriculture sector recorded a more moderate growth, particularly for production of rubber and food crops amid hot weather conditions.

“In addition to the release, DOSM also published its annual GDP report for the year 2023 which encompasses the revision of GDP data for the year 2021, 2022 and 2023 at the rate of 3.3%, 8.9% and 3.6%, respectively.

“The revision is based on the updates of the companies’ annual reports, the Annual Establishments Survey (AES) 2021, Economic Census 2022, as well as secondary data by the relevant agencies.”

Improvement in current account surplus

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "Let's now turn to the balance of payments.

"During this quarter, Malaysia's Current Account Balance (CAB) surplus surged to RM16.2 billion in the first quarter 2024, making up 3.5% of GDP.

"This increase was mainly driven by the income and goods accounts. The goods account surplus improved to RM32 billion during this quarter. The services account recorded a lower deficit of RM7.3 billion, primarily propelled by lower deficit in telecommunications, computer and information services and higher surplus in manufacturing services and travel.

"The primary income accounts showed a smaller deficit of RM8.8 billion due to higher income from loans and deposits abroad as well as lower profits accrued to foreign investors in Malaysia. Meanwhile, secondary income deficit turned into a surplus during the quarter.

"On the investment side, Foreign Direct Investment (FDI) recorded a net inflow of RM5.5 billion due to injection of equity and a turnaround in reinvested earnings. The FDI inflow was primarily channelled into services followed by mining and quarrying sector. The major FDI sources were Hong Kong, the USA and Germany.

"In the meantime, Direct Investment Abroad (DIA) registered a net outflow of RM11.5 billion. The main sectors were services, followed by mining and quarrying and construction. Singapore, Indonesia and Cayman Islands were the main destinations of DIA."

Most forward-looking indicators point to continued growth for the Malaysian economy

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "In the near term, both external and domestic leading indicators suggest continued growth for the Malaysian economy.

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“The pick-up in global orders and semiconductor sales as well as encouraging tourist arrivals to Malaysia are expected to provide support to Malaysia’s exports of goods and services.

“DOSM’s leading index point to further improvement of the overall economy. Consumer and business sentiments have broadly stabilised.”

Positive turnaround in exports performance in 1Q 2024

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “In 1Q 2024, exports turned around to record positive growth after three consecutive quarters of contraction. This was driven mainly by a broad-based improvement for manufactured goods. More specifically:

- E&E exports gradually improved in tandem with the global tech upcycle;
- Non-E&E exports were robust given continued demand, and mainly for machineries & equipment as well as construction-related materials.

“Moving forward, exports are expected to improve further for the year, supported by:

- Sustained demand for Malaysia’s non-E&E exports from our major trade partners;
- Further recovery of E&E exports in tandem with global tech upcycle;
- Improving commodities exports amid the resumption of oil and gas production; and
- Continued increase in tourist arrivals.”

Household spending continues to anchor growth

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Household spending growth was higher in the first quarter of 2024 supported by continued wage expansion and employment growth.

“Moving forward, consumer spending is expected to improve, driven by favourable labour market conditions, sound household balance sheets, and stronger support from Government measures.”

Implementation of new and existing projects supported investment activities

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Overall investment registered stronger growth at 9.6% (4Q 2023: 6.4%), supported by implementation of new and existing projects by both the public and private sectors.

"Notable progress was made in both transportation infrastructure projects including ECRL, Pan Borneo Highway, and Johor Bahru–Singapore Rapid Transit System (RTS), as well as digital infrastructure rollout (i.e. the MyDIGITAL 5G).

"Importantly, investment intentions including both domestic and foreign investments have improved steadily in recent years.

"Going forward, investments will be supported by further progress of key infrastructure projects and realisation of approved investments."

Growth outlook is subject to risks from both external and domestic factors

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Our forecast is for the Malaysian economy to grow between 4% and 5% in 2024. There are risks coming from both external and domestic factors to this growth projection.

"Upside risks include greater spillovers from the global technology upcycle and more robust tourism activity. In addition, faster implementation of existing and new investment projects will also boost growth.

"Meanwhile, downside risks include weaker-than-expected global growth and further escalation of geopolitical conflicts. Domestically, there could also be more shocks on commodity production."

Headline inflation remained moderate in 1Q 2024

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Both headline and core inflation remained moderate in the first quarter of 2024, reflecting stabilising demand and contained cost pressures.

"Headline inflation increased slightly to 1.7% (4Q 2023: 1.6%), mainly reflecting the effects of adjustments to administered prices. Particularly, this included higher water tariffs and service tax on electricity bills for high consumption users.

"Nonetheless, this was partly offset by lower core inflation, which declined to 1.8% during the quarter (4Q 2023: 2%), largely driven by continued easing in the food and beverages segment."

Going forward, the inflation outlook will be subject to policy factors, global commodity prices and financial market developments

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "In 2024, inflation is expected to remain moderate amid stable cost and demand conditions. For the year as a whole, headline and core inflation are projected to average 2% to 3.5% and 2% to 3% respectively.

"Notably, the outlook remains dependent on the implementation of domestic policy on subsidies and price controls; global commodity prices; and financial market developments. Of note, the wider forecast range for headline inflation has incorporated some potential impact from the implementation of fuel subsidy rationalisation.

"On the downside, lower domestic inflation could potentially stem from weaker-than-expected global growth conditions. This could manifest both in lower commodity prices, as well as slower domestic demand conditions following weaker external demand."

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The OPR was maintained at 3% at the May MPC meeting

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour, said “The MPC maintained the OPR at 3% at the May 2024 meeting.

“At the current OPR level, the MPC deemed the monetary policy stance remains supportive of the economy.

“As mentioned earlier, our baseline forecast is for Malaysia’s growth to improve, and inflation to remain moderate in 2024 amid stable demand conditions and contained cost pressures. This creates an appropriate environment for implementing key structural policies. As these domestic policies, including the subsidy rationalisation, will influence our outlook, our focus will be on assessing the short- and medium-term impact on domestic inflation and growth.

“As such, amid the evolving economic landscape, our monetary policy approach will continue to be data-driven. The MPC remains vigilant to ongoing developments and will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.”

Shifting expectations of the US monetary policy path and geopolitical risks led to higher volatility in regional currencies, including the ringgit

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “In 2024, the US dollar continued to display strength amid shifting expectations of the US Federal Reserve’s monetary policy path and heightened geopolitical risks.

“These global currency market dynamics have led to pressure on most regional currencies including the ringgit, which has depreciated against the US dollar by 2.4% year to date (as of 15 May). To put this into perspective, the ringgit’s performance is within the upper range among other regional currencies as can be seen in the chart here.

"Against this backdrop, the Bank's market operations will continue to ensure sufficient liquidity and orderly functioning of the foreign exchange market."

Coordinated actions to encourage more consistent flows into the FX market have led to positive outcomes

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "To manage short-term pressures on the ringgit, the Government and BNM have taken a number of coordinated actions to encourage consistent flows into the FX market. These include:

- Encouraging the repatriation and conversion of foreign investment income by GLCs and GLICs; and
- Stepping up discussions with corporates and exporters to convert their proceeds and overseas investment income in a more consistent and timely manner, which we will continue to monitor.

"These coordinated actions have helped cushion the pressure on the ringgit, despite the strength of the USD of late.

"We have seen improvements in the domestic FX market:

- Against the US dollar, the ringgit appreciated by 1.6% from 26 February to 15 May 2024. Meanwhile, the ringgit nominal effective exchange rate (NEER), which measures the ringgit's performance against major trading partners, has appreciated by 2.5%. When compared to regional currencies, the ringgit has also performed relatively well, ranking within the upper range against the USD.
- The daily FX trading volume has also increased alongside a narrower bid-ask spread, indicating improved liquidity in the domestic FX market.

"We expect that these flows can be sustained over time given that these investment income and export revenue are recurring in nature.

"Additionally, another initiative that we are working on is to pilot a fast-track pre-approval framework for corporates who bring back foreign currency funds and convert to ringgit, to enable them to re-invest abroad when the time comes. This aims to address frictions raised by corporates during our engagements with them."

Malaysian bond yields edged higher while equities rose

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "The 10-year yields on Malaysian government bonds have risen in tandem with a broad increase in regional and US yields on financial market expectations that the US policy rate will remain high for longer.

"On equity markets, the steady improvement in the economy and the positive impact from the implementation of structural reforms are expected to continue supporting domestic markets."

Credit growth increased, driven by greater expansion in loans for both businesses and households

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "Credit growth increased to 5.2% in the first quarter of 2024 (4Q 2023: 4.8%), amid greater expansion in both business and household loans.

"For businesses, outstanding loan growth increased by 4.9% (4Q 2023: 3.7%), driven primarily by higher growth in loans for investment-related purposes. Financing to SMEs remained forthcoming, with sustained applications as well as higher loan approval rates.

"For households, outstanding loans grew by 6.2% (4Q 2023: 5.7%), with higher growth recorded across most loan purposes. This reflected the sustained demand for loans, particularly for the purchase of houses and cars."

Banks remain well-positioned to support financial intermediation

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "The banking system continued to play an important role in supporting growth during the quarter.

“Owing to their strong financial position, including robust 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 low and stable impairment ratios. This is supported by prudent loan affordability assessments by our banks, which help to ensure that borrowers have buffers against cost pressures.

“Banks also remain prudent in their provisioning for potential loan losses, amid the stable level of impairments.”

Summary

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “The Malaysian economy expanded by a faster pace of 4.2% in the first quarter of 2024, driven mainly by private sector expenditure and turnaround in exports.

“For 2024, growth is projected to improve to between 4% and 5%, anchored by sustained expansion of domestic demand and improvement in external demand.

“There are downside as well as upside risks to growth, stemming from both external and domestic factors.

“Meanwhile, headline inflation is expected to average between 2% and 3.5% for 2024.”

Bank Negara Malaysia

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