



BANK NEGARA MALAYSIA

OUTLOOK

A Year of Uncertainty And Complexity

MARCH

2024

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2023 RECAP

“Amid a challenging global economic environment and a slower global GDP in 2023, the global economy performed better than expected”

Global economy has proved more resilient than anticipated at the start of 2023. Positive events in 2023 happened in an environment of aggressive rate hikes by the central banks to cool inflation, serious banking sector instability in US and Europe, and the Israel-Hamas war that risks the global GDP that had no major impact on oil prices, financial markets, or GDP.

Positive events

- Cooler inflation by lower commodity prices and normalisation of supply chain conditions.
- Tighter monetary policy is yet to be felt without any surges on unemployment.
- Strong wage growth and drawdown from excess savings.
- Modest global trade amid weaker demand, global tech downcycle, inventory correction.
- Continued spending rotation from goods to services.
- The US avoided recession and outweighed a sharp slowdown in euro and UK.
- Japan's post-pandemic recovery has been impressive – exports, weak yen and domestic spending.
- Asia-Pacific region remained as a key driver:
 - ◆ India remained strong – contained inflation, healthy labour market and domestic demand.
 - ◆ Modest China recovery following the relaxation of pandemic-related restrictions.
 - ◆ ASEAN was supported by the strong domestic demand from Indonesia and Philippines.
 - ◆ Weak-to-moderate growth from Thailand and Vietnam.
 - ◆ Stable outlook for Singapore.



“MODERATE DOMESTIC OUTLOOK DESPITE WEAK TRADE, COMMODITY PRICES AND HIGH BASE COMPARISON”

As a trading nation, the Malaysian economy grew moderately in 2023 despite external headwinds. Challenges stemming from weak external demand, disruptions in commodity production and higher cost of living were overshadowed by positive developments.

Positive events

- Resilient domestic demand, tourism activities, healthy labour market conditions, supportive policy measures, and private sector capital spending (IT and E&E).
- Moderate inflation though electricity tariffs subsidy rationalisation and chicken price ceilings removed and weak MYR impact was offset by stable firms pricing.
- Sustained loans growth from healthy household loans supported by steady employment and government incentives and business loans rebounded end-2023 from a more positive outlook.
- Monetary policy normalised amid resilient domestic growth prospects: The Overnight Policy Rate (OPR) was increased by 25 basis points to 3.00%.
- Shift towards services spending which accounts for 58% of the GDP.

COMPLEX AND UNCERTAIN 2024

“POLICYMAKERS, INVESTORS, BUSINESSES AND HOUSEHOLDS SHOULD FOCUS ON SOME OF THE FOLLOWING QUESTIONS THAT APPLIES TO THE WORLD AT LARGE”

Wars are causing havoc around the world. Political transitions are becoming a concern. High interest rates would start to find its way through the system. Climate disasters are becoming more common. Focus is on the US economy and China

Look At

1. Geopolitical uncertainties dominate all other risks.

- A series of cascading events – including the U.S. trade wars, COVID pandemic, Russia's invasion of Ukraine and the war between Israel and Hamas – have built on each other.
- These events have exacerbated volatility. Risk of more tension to flare up is hanging over the global economy.

2. Global elections can lead to geopolitical complexity

- Major elections from the U.S. to Taiwan would impact the geopolitical situation and the level of geopolitical complexity and policies, global GDP and markets. It is a risk in every region.
- Most watched and consequential elections will be the US presidential race. Another key election is in India. Taiwan's mid-January election outcome remains a concern.

3. Cooling inflation may not be over

- Uninvited inflation from the spike in 2021-2022 would continue to cool in 2024.
- Tight monetary policy, supply chain improvements, cooling demand, easing supply-side inflation pressure, lower shipping and energy costs points to a further moderation on inflation.

- There is a strong debate about the inflation outlook in 2024. Headline inflation could fluctuate across countries and regions. Much depends on the economic conditions, policy responses, labour and energy markets, consumer spending and external shocks.
- Such divergences are more keenly felt in “advanced” economies compared to the emerging and developing economies.

4. Global central banks are in a dilemma

- Global central banks were successful to lower inflation, avoid recession and big surges in unemployment by hiking rates.
- Full impact of monetary tightening is yet to be felt partly due to the solid labour market and cooling inflation. It allowed many central banks to pause their monetary tightening.
- 2024 is a “transition” year where central banks are in a dilemma as global growth is between a fine line of cooling inflation and a lacklustre growth, especially in developed economies.
- Should central banks relax their monetary policy quickly, there is a risk of inflation to come back. If they keep the policy too tight, it could trigger a recession.
- Rate-lifting cycle since Covid-19 lockdowns and Russia's invasion of Ukraine would be reversed. It is only when and by how much once they are convinced to move to the next leg.

5. Chinese economy

- Confidence remains the key narrative. Low confidence remains from the households, private entrepreneurs, business fixed-asset investment and private investments. Will 2024 mark the end of its malaise?
- Households and companies are less responsive to economic stimulus. High debt, property, outflow of FDI, deflation, weak wages, high unemployment and real borrowing costs, aging population weighs on the economy.
- Will the government remain conservative in its use of monetary and fiscal policy? Only timely and effective policies will tell.
- EU largely agrees with the US on China's policy. It could put China on its back foot a bit. EU's investigation into China's EV industry subsidies can flare up trade tension between them.
- While China's baby steps are welcomed to attract foreign investments, it remains insufficient for any reversal in the overall dynamic at the moment.





“STILL ROOM FOR GLOBAL GROWTH TO OVERSHOOT EXPECTATION”.

“General perception on 2024’s GDP outlook appears to be riskier under the strain of wars, still-elevated inflation and continued high interest rates. Recession risk is lingering in the minds of many”.

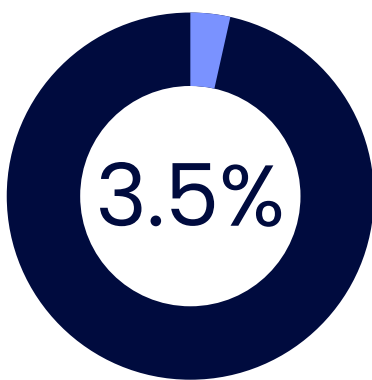
Positive events

1. Asian Pacific’s GDP would remain strong compared to advanced economies.
 - The region could help overshoot global GDP’s and steer towards a moderate outlook from the exports tail-wind and stable domestic demand.
 - India, Indonesia and Philippines GDP would grow above 5%.
 - ASEAN GDP is projected to be around 4.5%.
 - China’s moderate growth is still decent by any standards of most countries.
2. There are certainly bright spots within the job market.
 - Opportunities available, especially outside large companies. While the large companies have pulled back their hiring the most in 2023, SMEs have not pulled back to the same degree.
 - Job market will also benefit from the generational changes in 2024. More GenZers than baby boomers will be employed full-time by early 2024.
3. Manufacturing activity should recover from a subdued 2023 pace.
 - Most of the headwinds in 2023 from (1) spending on services from goods, (2) European energy crisis, (3) inventory destocking cycle from an overbuild in 2022, and (4) weaker-than-expected rebound in Chinese manufacturing should fade in 2024.
 - Spending patterns should start to normalize, gas-intensive European production finds the bottom, and inventories-to-GDP ratios stabilize.

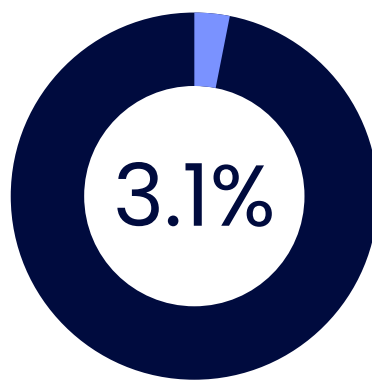
4. Rising real income would be one of the biggest drivers of the soft-landing narrative.

- Real wage growth would be supported by calmer inflation and nominal wage growth.
- Advanced economies real wage growth would be around 2.0% - 4.0%.
- Asia's real wage growth would outperform the West, driven by a semiconductor's tailwind and steady domestic demand, to grow between 4.0% -5.5%.

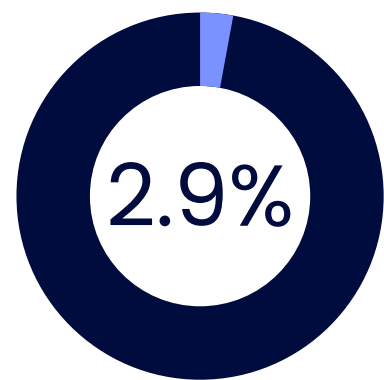
GLOBAL GDP



2022



2023



2024f

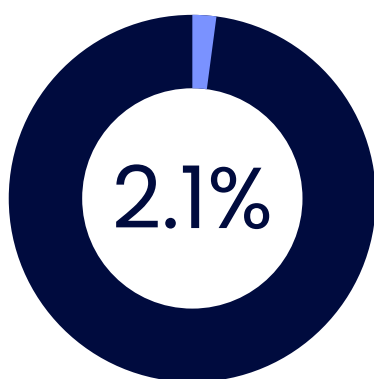
KEY ECONOMIES

“US COULD BEND, BUT NOT BREAK”

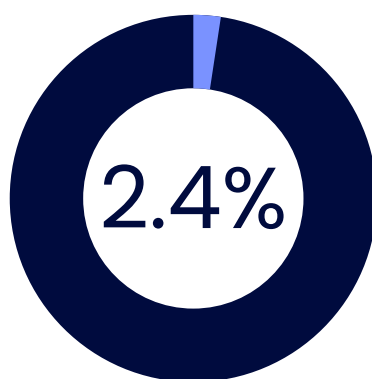
- 1** Expectations are for a slowdown in 2024 GDP outlook, maybe a mild recession, and an economy marked by lower interest rates and lower inflation. Still, there are views that the economy could outperform expectations from a modest weakening.
- 2** Inflation would ease to around 2.5%. Labour market is predicted to cool after a far stronger than expected performance in 2023. Monthly job gains are forecast to hit around the 100k mark after being more than double that for much of 2023. The unemployment rate could tick up to 4% or so from its current 3.7% level.
- 3** Interest rates are expected to ease. Fed may cut rates in 2H24 by a total of about 150 basis points and a further 100 basis points in 2025 from the current 5.25% and 5.50%. Still, interest rates will remain above the rate of inflation.
- 4** Normalisation of labour market and falling inflation will result in notable gains in real disposable income. This will be the difference between the solid GDP between 1.8% -2.0% in 2024 versus a more modest growth of closer to 1% - 1.2%.
- 5** Days of ultra-low interest rates are over. US could be seeing the era of sound money which means savers will be rewarded for their prudence and long-term investment after several years of stock-picking momentum.
- 6** Mortgage rates are likely to settle around 6% or lower following a surge to 8% in 2023. That will improve the outlook for a housing market that has shown signs of life recently.
- 7** Demographic changes will be at the forefront of demand as baby boomers continue to sit on houses with 3% and below mortgage rates and older millennials enter the key time of their careers. The average age of a new homeowner is now 36 from 33 in 2021.

- 8 Productivity has picked up, reaching the 4.7% in 3Q2023. It has been advancing at a 4% in the past six months. Companies have been investing heavily in new manufacturing capacity and technologies like robotics and artificial intelligence. Supply chains battered during the pandemic are mostly back to normal, and evidence of that is the fact that car dealers are offering incentives as their lots are full again.
- 9 The 2024's presidential election outcome will also shape the economy with two contrasting views on how to govern and prioritise the economy between for now.
- 10 GDP growth is projected at 2.4% in 2023 and 1.8% in 2024. At just under 2%, the GDP is close to the decent 2% average reported in the decade before the pandemic.
- 11 Fed is likely to cut 100 basis points in 2024 and 100 basis points in 2025 from the current 5.25% and 5.50%, a 22-year high to settle at 2.50% in 2025.

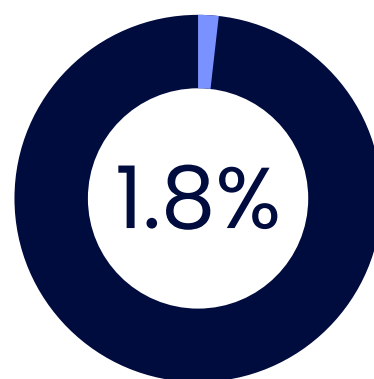
US GDP



2022



2023



2024f

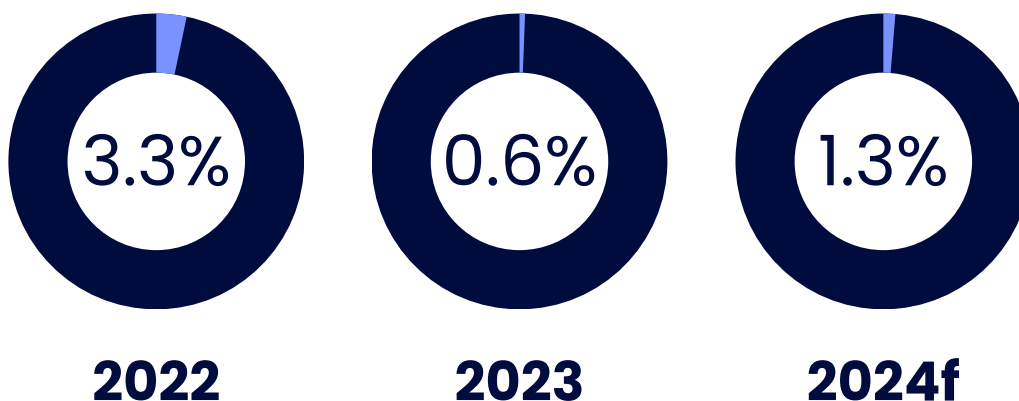
A close-up photograph of several Euro coins and banknotes. In the foreground, a 1 Euro coin is prominent, with a 2 Euro coin partially visible behind it. In the background, a 10 Euro banknote and a 20 Euro banknote are visible, with the numbers '10' and '20' clearly shown. The coins and banknotes are slightly out of focus, creating a sense of depth.

“COULD EURO FIND ITS FOOTING IN 2024?”

- 1 Global politics, ongoing geopolitical happenings and economic risks remains. Yet, the euro region may find its footing and probably outweigh the expectations of a soft landing in 2024.
- 2 2023 headwinds from high gas prices, large drag from monetary tightening and, global industrial activity would diminish in 2024.
- 3 Rising real incomes would be a key driver for euro's GDP performance as the effects of past high headline inflation fade. Underlying inflation should normalise in 2024 to 2.7%.
- 4 Labour market would remain broadly resilient—envisage a modest increase in the unemployment rate to around 6.7%. Wage growth would normalise around 4% from 5% in 2023.
- 5 Negative credit drag would recede. As inflation eases, ECB would be more supportive. First rate cut could in 2Q2024 and expect 25bps cut per quarter until it reaches 2.5% in 4Q2025.
- 6 Recovery in consumption, increase in investment and a modest recovery in exports would support manufacturing. Still, the upside is limited underpinned by a mixed global industrial environment.
- 7 Normalisation of energy markets would reduce risks of supply constraints. But, some manufacturing sectors would be affected by the higher natural gas prices than pre-2022 levels.
- 8 Private sector balance sheet is solid with a net financing capacity at 4.5% of GDP. It is 0.6% more than government financing needs and has created a safety net if economic recovery struggles.

- 9 A majority of the European banks and financial institutions have handled interest-rate risks well. Real estate sector has also been supported by an increasing number of fixed-rate mortgages.
- 10 Fiscal developments will be a key focus. While expiry of temporary measures and better economic health provides some tailwinds, expenditure pressure remains. It requires tough policy trade-offs.
- 11 GDP growth is projected at 0.6% in 2023 and 1.3% in 2024. The Governing Council will taper its Pandemic Emergency Purchase Programme (PEPP) reinvestments in 2Q2024.
- 12 And the ECB would begin its easing cycle in 2Q24. If right, the ECB will be the first among major central banks to cut rates by 150 bps in 2024 and 50bps in 2025 to settle at 2.5% in 2025.

EURO GDP

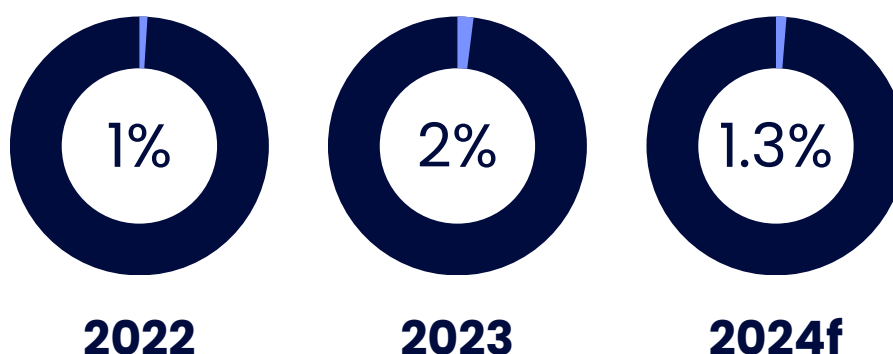




“JAPAN’S POST PANDEMIC RECOVERY CONTINUES”

- 1 GDP would be supported by solid consumer spending and increase in tourist arrivals. Wage hikes will be particularly crucial in 2024 – deliver wage hikes above price increases to combat inflation.
- 2 The BOJ which has long maintained an ultra-easy policy, will be watching spring wage negotiations closely to determine whether it should end its negative interest rate policy.
- 3 Capital spending would pick up supported by a more optimistic corporate sentiment. Corporate governance reforms and the resurgence as semiconductor powerhouse provides strong tailwinds.
- 4 Key companies (Toyota, Denso, Sony, NTT, NEC, SoftBank, MUFG Bank, and Kioxia) with the government support set up Rapidus with IBM Research to focus on low-power AI chips and create a semiconductor supply chain that is less reliant on China.
- 5 BOJ raised the JGB 10-year bond yield from 0.5% to 1.0% and redefined the 1% as a loose upper bound rather than a rigid cap, a notable change and suggest ending the cheap monetary policy.
- 6 BOJ’s first major alteration to its policy framework since the implementation of yield curve control (YCC) in September 2016 is a move towards a tighter monetary policy. It will strengthen yen, potential reduction in trade deficit and an influx of capital.
- 7 GDP growth is projected at 2.0% in 2023 and 1.3% in 2024. The BOJ as opposed to other global central banks will tighten its policy rate to zero from -0.1% in 2024 and settle at 0.25% in 2025.

JAPAN GDP





“ASIA WOULD GROW FASTER THAN ADVANCED ECONOMIES”

- 1** Reversing the cyclical downturn of ICT/semiconductor powered by AI chips, end of the inventory correction, government incentives, and higher sales outlook would support economies, especially South Korea, Taiwan and Malaysia.
- 2** Cooling inflation across with some degree of divergence. Much depends on labour market tightness, stages of the business cycle, fiscal subsidy size and exposure to food and energy shocks.
- 3** Central banks have more room to support the economy from the calmer inflation, potential normalisation of US Fed and some correction to the strong USD.
- 4** Labour market would remain healthy supported with ongoing job gains – cyclical narrative, strong economic fundamentals, reforms, supply chain shifts, public infrastructure spending, green and electric vehicle and large capital inflows.
- 5** Asian investment landscape benefitted from the geopolitical tension. It led to challenges and opportunities for different Asian countries and saw the emergence of new Asian Tigers – Japan, Singapore, and South Korean and emergence of Indian and Indonesia.

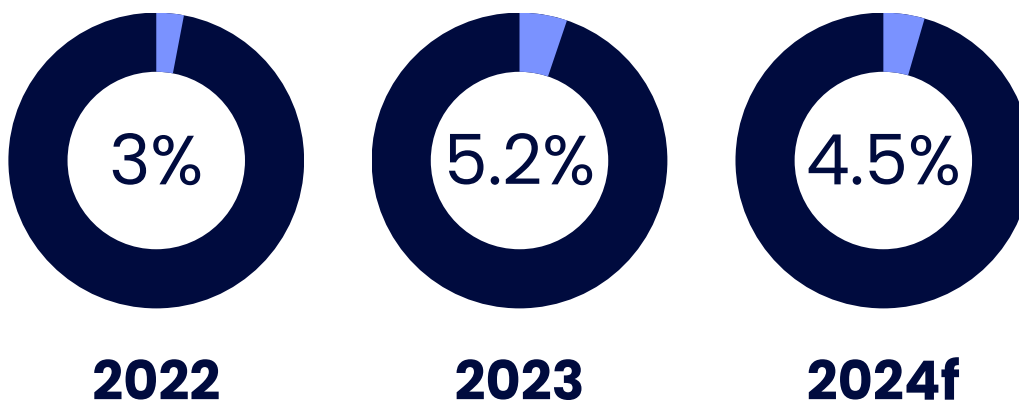


“WILL CHINA STEER ITS COURSE BACK ON TRACK?”

- 1 5% GDP target may not be attained under current economic conditions. Deflation, unemployment, debt, confidence, capital outflow, reforms, aging population and property has growth implications.
- 2 Crackdown on local government debt accumulation in 12 high-risk provinces, slowdown of investment in the new energy sector, and lacklustre data for Jan-Feb'24 pose challenges.
- 3 Property sector – key economic driver is now under unprecedented pressure. Several major developers are on the verge of bankruptcy and falling prices dissuading investment in real estate.
- 4 2024's emphasis is on the fiscal policy. China plans to maintain its 3% budget deficit/GDP (3.8% target). Focus will be on the 1 trn yuan (\$137bn) sovereign bond issued to bolster the economy.
- 5 Accommodative monetary stance will remain as second fiddle to fiscal policy. Rate cuts could be in the range of 5 to 10bps for the seven-day reverse repurchase rate and RRR by 25bps.
- 6 High financial risks cities (Tianjin and Chongqing; provinces) and provinces (Heilongjiang, Jilin, Liaoning, Inner Mongolia, Gansu, Qinghai, Ningxia, Yunnan, Guangxi and Guizhou) are forced to reduce local infrastructure investment, curb local debt expansion and lower credit risks
- 7 Still, its policy is designed to complement President Xi's security goals. As long as national security agenda drives economic and financial policy, China is unlikely to see a sustained growth pattern.
- 8 China needs to raise its debt or a complete reform. Beijing would raise a Rmb3.9trn (\$543bn) special-purpose bonds earmarked to fund infrastructure projects (Rmb3.8trn target in 2023).

- 9 Beijing could also raise the quota for local government special refinancing bonds to swap hidden debt, guide commercial banks to help roll over existing local hidden debt with lower interest rates, and direct policy banks to increase lending to low-risk local governments.
- 10 Jan-Feb'24 combined retail sales grew 5.5% year on year. The key household consumption indicator was down from Dec'23 which rose by 7.4%.
- 11 Accommodative monetary stance will remain as second fiddle to fiscal policy. Rate cuts could be in the range of 5 to 10bps for the seven-day reverse repurchase rate and RRR by 25bps
- 12 GDP growth is projected at 5.2% in 2023 and 4.5% in 2024. The PBoC is likely to cut 35 basis points in 2024 from the current 3.35% policy rate and maintains this level in 2025.

CHINA GDP



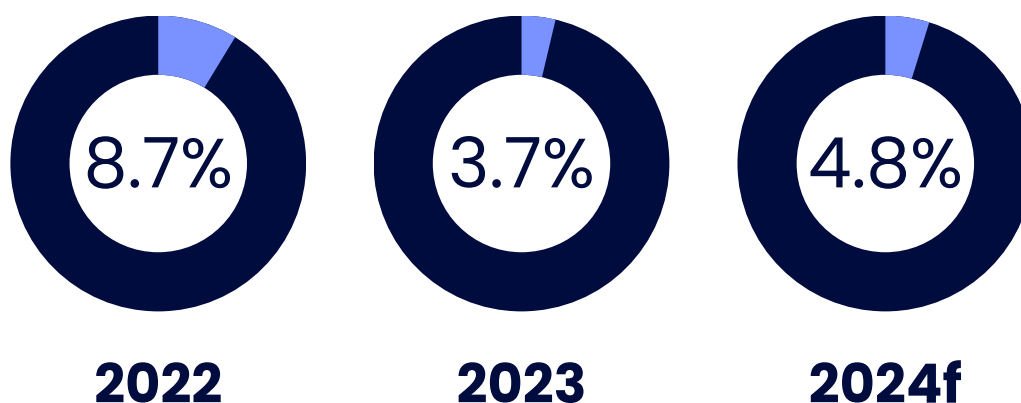


“CAN MALAYSIA OUTPERFORM EXPECTATIONS?”

- 1** Ongoing geopolitical issues, weaker-than-expected global growth, domestic risk on severe shocks on commodity output and subsidy rationalisation impact are key risk.
- 2** Still the economy could provide upside risks to the domestic growth. Positive impact from the tech upcycle, tourism activity, and quick implementation of existing and new projects are key drivers.
- 3** Cooling inflation, stable policy and mortgage rates, and ringgit should strengthen against the Dollar that will provide some cushion on import cost would improve households' wallets.
- 4** Favourable labour market would support real wage growth to hover between 2.5% -3.5%. About 40% of the workforce and 25% of the labour force are in this sector.
- 5** Growing digitalisation, connectivity, widespread use of smartphones, availability of high-speed internet has improved access to gig platforms and businesses to leverage gig workers.
- 6** Strategic master plans implementation initiatives, RM90bn development expenditure in Budget 2024 and approved investment (RM900.6bn 2021-23) by MIDA would provide the catalysts.
- 7** Trade would recover in tandem with a rebound in global trade, technology upcycle, E&E and non-E&E exports, and commodity prices.
- 8** Imports to gain momentum from intermediate and capital imports in tandem with investment growth and stronger domestic demand for consumption goods.

- 9 Direct and indirect positive impact from the New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR) and Mid-Term Review of the 12th Malaysia Plan (2021-2025).
- 10 A stable domestic climate and growing global roadshows puts Malaysia on the global business and investment radar screen. It would benefit from the New Asian Tigers and shifting geopolitics.
- 11 GDP growth is projected at 3.7% in 2023 and 4.0% -5.0% in 2024. The OPR is to be maintained at 3.00% in 2024.

MALAYSIA GDP





“SLACK IN REFORMS WILL BE COSTLY IN THE LONG TERM”

- 1** Malaysia's 3.7% GDP in 2023 despite a challenging external environment showed the economy remained resilient. Domestic demand, tourism, favourable labour market, moderating inflation and a good balance monetary policy between growth and inflation played an important role.
- 2** Downside risk to our GDP in 2024 comes from an uncertain and complex external environment. Prolonged high interest rates from advanced economies would weigh on global growth. Geopolitical conflicts would disrupt global trade. They would dampen our exports and production. Also, weather disruptions impacting global commodity prices.
- 3** Domestic challenges would be influenced by the reforms that may be painful in the near term as they come with cost. There is risk for prices and businesses if the subsidy rationalisation is not carried out rationally. We need to ascertain if the impacts from subsidy rationalisation are short-term or long-term.
- 4** Interest rate differentials, geopolitical issues, domestic and global activities and sentiments saw ringgit slip against the USD and regional currencies. GLCs, GLICs, exporters and foreign investors are encouraged to repatriate and convert their foreign income from ringgit. Such a move can be viewed positively into ringgit, positive in short term.
- 5** And BNM needs to maintain an orderly domestic financial markets through its liquidity and foreign exchange operations and carry out measures to enhance market efficiency, liquidity and accessibility. Also, BNM will have to keep the dynamic hedging flexibilities for investors to take positions while protecting their investments.

- 6 Our businesses must focus on domestic investments, invest and level up on skills and innovation to move into high-value and innovation-driven sectors. They must be mindful of global trends like sustainability. It will impact global production chains, trade, investment and technology. If we get this right, our fundamentals and productivity will strengthen. It will support ringgit and we become a stronger and more competitive nation.
- 7 We need to focus on labour reforms. Urgent need to address skill gaps, risk of being replaced through automation, AI affecting white collar knowledge workers and ageing population. It would help support ringgit as we move towards a high productive and high income nation.
- 8 To entice global investors to invest in Malaysia and support ringgit, reforms is vital. Just like China, any slack in reforms will be costly to the economy. For Malaysia, the ringgit will get hurt against the USD and also against the cross rates.
- 9 Despite some downside risk on Malaysia's GDP, there is still room for optimism. Possibilities for 2024 GDP to overshoot average market expectations of around 4.5% is on the table. Tailwind from the reverse cycle of semiconductor, tourism, positive disposable income, stable demand, healthy job market, and sustained financial buffers among households.
- 10 Malaysia would also benefit from the various policies and strategies announced. But much will depend on how well-planned and well executed these policies and strategies. BNM's monetary policy will have to be forward-looking and maintain a balance between growth and inflation. And supported by the fiscal policy, there is a need to carry out reforms in a strategic manner without overburdening the B40s.





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